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NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

JAPAN'S ROLES IN U.S.
NATIONAL SECURITY STRATEGY:
STRATEGIC ALLY AND ECONOMIC ADVERSARY

by

Thomas Edward Arnold

June 1991

Thesis Advisor:

Claude A. Buss

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Japan's Roles in U.S. National Security
Strategy: Strategic Ally and Economic Adversary

by

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Lieutenant Commander, United States Navy
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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

from the

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ABSTRACT

This thesis examines the conflict between contradictory but coexisting American views of Japan's roles in U.S. national security strategy: strategic ally and economic adversary. Its central hypothesis is that postwar American policy toward Japan has, of necessity, placed strategic imperatives over economic interests but that a continuation of such an approach in the emerging post-Cold War environment both harms U.S. interests and risks a breakdown in U.S.-Japan relations. The thesis assesses the rationales for a continued strategic emphasis in the relationship and an alternative economic emphasis. It concludes with a set of policy recommendations aimed at shifting the relative emphasis placed on the two sets of interests by maintaining but downgrading the strategic relationship, including the security alliance, while increasing the priority given to U.S. economic and competitiveness interests. The ultimate goal is to establish a more stable and enduring U.S.-Japan relationship based on a new set of common interests.

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I. INTRODUCTION

The U.S.-Japan alliance has been characterized as the most important bilateral relationship in the world.¹ The two nations are each others largest overseas trading partners. Japan is the second largest foreign direct investor in the United States and, during the 1980s, has been the most important foreign buyer of U.S. government securities. The United States is by far Japan's largest export market as well as its major source of direct investment and imports. The two countries are the world's largest foreign aid donors, the most substantial contributors to United Nations organizations, and are among the most influential members of the World Bank, the International Monetary Fund and the Asian Development Bank.² Together they account for about 40 percent of global gross national product (GNP).³ In fact:

With just 7 percent of the world's population, the two economies produce 30 percent of the world's goods and control a similarly disproportionate percentage of global trade. Together the two countries account for nearly three-quarters of world stock and bond market value and half of all bank lending. They issue 80 percent of the money used by other nations as reserve currencies.⁴

The significance of this massive, globally dominant economic relationship is exceeded only by an unprecedented security arrangement.

For forty-six years, American military forces have been stationed in Japan and the two countries are bound by a

forty year old bilateral security alliance. Unlike America's other major front-line Cold War military alliance, the multilateral NATO pact, the U.S.-Japan security relationship is asymmetrical in its implicit obligations--creating the ironic arrangement in which the world's richest nation has virtually guaranteed the security of the second richest without any reciprocal commitment. Beyond the alliance itself, the security relationship is characterized by such significant interdependencies as the reliance of U.S. high technology military equipment on Japanese electronic components as well as the fact that many of Japan's major weapons systems are coproduced American models.

But despite the scope and depth of the U.S.-Japan alliance, the relationship is threatened by divisive economic imbalances and political tensions. These tensions and the potential instability they engender reflect the unique evolution of U.S.-Japan relations in the postwar period. Indeed, the complex, interdependent relationship which has evolved is frequently riven by mutual suspicion and misunderstanding and, on the American side, by conflicting and seemingly irreconcilable, but thus far coexisting, views of Japan's place in U.S. national security strategy: strategic ally and economic adversary. This contradiction is further intensified by the shift toward a post-Cold War international security environment which increases the ambiguity of Japan's contribution to mutual strategic

interests, especially when balanced against a growing contention that national economic imperatives are now of greater strategic importance than military security considerations.

Implicit in this main issue of the appropriate strategic balance in the U.S.-Japan relationship, and indicative of the ambiguities noted above, are the following interrelated questions:

First, is it in U.S. interest to continue subordinating economic priorities to security considerations in its relations with Japan, our primary international economic competitor? Indeed, can these two areas of American national interest any longer be assessed separately?

Second, as the Soviet threat diminishes is it in U.S. interest to continue encouraging Japanese rearmament (qualitative or quantitative) even as the United States is being looked to as a "watchdog" of Japan's potential military power?

Third, is it consistent with the emerging American "regional balancer" role in the Asia-Pacific area to become dependent on Japan as the "critical linchpin of U.S. strategy in the Pacific" when most other regional actors view Japan as a threat?

Fourth, is it in U.S. interest to encourage Japan to assume a larger, more assertive and even more independent regional and global role as an offset to or sharer of

America's international security, economic and political burdens when there is no clear evidence that Japan shares U.S. world order goals or will consistently exercise such a role in parallel with American interests?

As these questions illustrate, the increasing polarization of American views of Japan raises troubling issues for this contentious but clearly important bilateral relationship. Any effort to establish a more stable, enduring and genuinely reciprocal post-Cold War partnership between Japan and the United States will require substantial reconciliation of the contradictions posed above. An examination of the historical causes, competing American interests, and U.S. policy options relevant to such an effort is a necessary first step towards achieving this worthwhile, even vital, goal.

A. THE RESEARCH PROBLEM: HISTORICAL OVERVIEW

Following the surrender of Japan in August 1945, the United States moved rapidly to dominate Japan's postwar occupation. This dominance allowed the U.S. to pursue broad policy objectives which included the assurance "...that Japan will not again become a menace to the United States or to the peace and security of the world" as well as "the establishment of a peaceful and responsible government which will respect the rights of other states and will support the objectives of the United States...."⁵ In accordance with

the Cairo, Yalta and Potsdam declarations of the allied powers, these objectives would be achieved primarily by stripping Tokyo of its colonial possessions, by Japan's complete disarmament and demilitarization, by encouraging the Japanese people to form democratic and representative organizations, and by radically restructuring Japan's economic system.⁶ Operating "on the premise that Japan was the principal, if not the only, threat to the tranquility of the Far East," American postwar planners sought to turn the vanquished nation into a virtual "Switzerland of the Pacific."⁷

However, with the onset of the Cold War in the late 1940s, the aims of U.S. postwar policy toward Japan were fundamentally altered. Shifting away from goals of permanent disarmament and radical economic restructuring, the U.S. sought to reconstruct Japan to create, within its larger containment strategy, "a regional bulwark against Soviet encroachment" in East Asia.⁸ A non-communist Japan, tied closely to the free world, seemed especially important in the aftermath of the "loss of China" and the communist invasion of South Korea. Indeed, according to National Intelligence Estimate 43 of November 1951 "...under Communist control Japan would pose the greatest threat to the U.S. position in the Western Pacific."⁹

In committing itself to Japan's economic recovery and military security, the U.S. established a long-term

relationship with Japan that became formalized within the framework of the U.S.-Japan Mutual Security Treaties of 1951 and 1960. This and other Cold War security commitments, according to some authors, established "a 40-year behavior pattern in which the United States has sacrificed its economic interests for what it regarded as military imperatives."¹⁰ While the U.S. recognized "the necessity of assuming [responsibility for] the military defense of Japan so long as that is required,"¹¹ the Japanese were expected, through the mid-1960s, "to play no more than a passive role in the American strategy of containing communism [by] merely providing bases [for U.S. forces]..., and securing...[themselves] against internal subversion."¹²

Japan's dependence on the U.S. during this early period of the postwar relationship was extended into the economic arena in the form of American technology assistance and trade concessions as well as preferential procurement policies (e.g., during the Korean War). However, by the late 1960s, the rapid pace of Japanese economic recovery coupled with the growing costs of America's Vietnam commitment led to a fundamental shift in U.S. policy toward Japan.

Within the context of the broader Nixon Doctrine of 1969, the "U.S. urged Japan to build-up its [armed] forces" and assume greater responsibility for its own defense.¹³ Indeed, by early 1970 American officials were characterizing the Japanese Self-Defense Forces (SDF) as being "responsible

for [even if not fully capable of] their country's immediate conventional defense."¹⁴ Meanwhile, persistent U.S. trade deficits with Japan since the mid-1960s led American policy-makers to publicly call for an end to "the era... during which Japan could claim special [economic] privileges."¹⁵

While the United States had recognized for some time the necessity to "guard against a flooding of our own markets by [Japanese] goods,"¹⁶ U.S.-Japan trade issues of the late 1960s marked a departure in bilateral relations. Through the mid-sixties, Japanese economic recovery had been viewed as "the heart of any collective effort to defend the Far East against aggression."¹⁷ In other words, Japanese economic growth served U.S. security interests first by creating the political and social stability which reduced Japan's vulnerability to communist subversion, and later by contributing to accelerated development elsewhere in non-communist Asia. But, once Japanese growth began proceeding at U.S. expense (in the form of trade deficits beginning in 1965), American views began to shift.

Thus, by the late 1960s, U.S. views of Japan began to diverge significantly in both the defense and economic spheres. In the military relationship Tokyo, while still seen to be an ally, was also viewed increasingly as a "free rider" which failed satisfactorily to share defense burdens.¹⁸ Economic relations continued to be perceived not

only in terms of a partnership, especially with respect to Asian development, but also as an unbalanced competitive relationship lacking in reciprocity on the Japanese side (now referred to by some as "neomercantilism"¹⁹). But defense and economic "one-sidedness" were not entirely separate issues--both stemmed from the assertion that Japan continued to derive major benefits from its military and economic dependence on the U.S., while failing to reciprocate by accepting a share of the costs that its economic recovery made it quite capable of assuming.

Over the past two decades of extensive U.S.-Japan relations these conflicting views--ally/partner versus free rider/unfair competitor--have not been resolved; in fact, there has developed an intensifying polarity between them. The essential result has been a deepening contradiction between American views, and even policies, toward Japan. One set of views places Tokyo in a role of critical strategic partner in the pursuit of U.S. regional and global goals, while others consider Japan to be primarily an economic adversary which contributes to American aims only under pressure and criticism or when those aims clearly serve Japan's own narrowly focused economic purposes.

For a number of reasons the U.S. government has downplayed the potential divisiveness of this fundamental ambiguity in American-Japanese relations. Post-Vietnam retrenchment in Asia followed by the need to counter an

increasingly active Soviet threat necessitated continued harmony in U.S.-Japan defense relations, both to promote burden sharing and to retain base access in Japan. Growing U.S. dependence on Japanese technology and investment capital as well as continued American commitment to the international free trade regime produced an economic policy toward Japan which has stressed incremental negotiation rather than decisive or comprehensive retaliation for Japan's "unfair" practices. Finally, the costs of U.S. global commitments, both military and foreign aid related, in a period of growing domestic fiscal constraints have led American policy-makers to engage Japan in a widening global partnership aimed at sharing burdens and responsibilities in pursuit of mutual interests. This partnership has emphasized in particular larger Japanese foreign aid expenditures, a more visible role in key international organizations, greater host-nation support to U.S. forces in Japan, and improved military capabilities in support of wider SDF missions.

During a period of persistent, significant Soviet threats to U.S. national security, this approach to U.S.-Japan relations was both prudent and most effective in serving American interests despite its apparent costs. These costs have included significant imbalances, favorable to Japan, in military expenditures, in political risks and in economic transactions.

However, as the Soviet threat to U.S. security interests recedes and there emerges "an entirely new concept of national security...[which] embraces economics and competitive, commercial relations,"²⁰ the underlying contradictory aspects of U.S.-Japan relations are further highlighted. Indeed, common American-Japanese strategic interests appear to be diminishing even as the potential for intense economic competition appears to be increasing. Clearly, the emerging post-Cold War international environment offers the opportunity for a fundamental reassessment of Japan's place in U.S. national security strategy. Failure to do so risks further confusion as to the net benefits to U.S. interests of the current relationship and, ultimately, a mutually disadvantageous breakdown in U.S.-Japan relations may result.

B. THE RESEARCH PROBLEM: HYPOTHESIS AND METHODOLOGY

The purpose of this research is to conduct an assessment of post-Cold War American strategic and economic interests vis-a-vis Japan and to examine the implications of that assessment for U.S. policy. The analytic approach undertaken in this study is based on the hypothesis that Japan's strategic relationship with the United States has heretofore reflected Cold War imperatives. In the American view, Japanese security cooperation and economic strength were considered to be indispensable elements of containment strategy, and justified the subordination of U.S. economic

interests to security imperatives. In Japan's view, the only realistic course in a bipolar world was to accept American security and economic patronage as a means to facilitate its postwar recovery. The very success of these aims has produced conflicting American views of Japan's role in U.S. national security strategy (strategic ally/partner versus economic adversary/free rider). The shift toward a post-Cold War international order, symbolized by the dismantling of the Berlin Wall in November 1989, is seriously challenging the strategic assumptions underlying the U.S.-Japanese relationship. This clouding of strategic interests will only intensify the contradictions in American views of Japan's role in U.S. strategy.

Failure to reconcile these contradictory views threatens to produce an increasingly unstable bilateral relationship which fails to best serve U.S. interests and which risks mutually disadvantageous breakdown. Furthermore, if reconciliation of these contradictions cannot be accomplished by seeking changes in Japan's behavior, then the U.S. must change its own. Such change must begin with a fundamental reassessment of U.S. interests and policies aimed at mitigating the divisive American views of Japan and achieving a more stable, balanced and enduring relationship.

The methodological approach to be employed in this study is summarized below:

1. Develop an historical model of the postwar evolution of U.S.-Japan relations to demonstrate how Cold War security imperatives and growing economic competition created an intensifying contradiction between American views of Japan as a strategic ally/partner and an economic adversary/free rider;
2. Examine the current contradiction in the relationship to demonstrate its inherent potential for instability under changing international strategic conditions (i.e., the end of the Cold War);
3. Assess rationales supporting the continued predominance of a strategic alliance emphasis in U.S.-Japan relations;
4. Assess rationales supporting a predominant emphasis on American economic interests in U.S.-Japan relations; and
5. Based on the assessment of American interests conducted above, provide policy recommendations for establishing a more stable, less divisive relationship which may better serve those interests.

C. RESEARCH ASSUMPTIONS/LIMITATIONS

This research will be guided by the following assumptions:

First, during the Cold War era, the U.S. government subordinated national economic interests to global strategic imperatives in its relationship with Japan and this policy approach generally continues today.

Second, despite the diminishing Soviet threat, the U.S. will maintain a forward deployed military presence in the Pacific and elsewhere, albeit at reduced levels, rather than adopt a neo-isolationist strategy, and, for the foreseeable future, the United States will be viewed by most

Asia-Pacific actors as the only acceptable "benign hegemonist" for the region.

Third, the end of the Cold War between the U.S. and the Soviet Union has produced a shift in American strategic focus in the Asia-Pacific region from Soviet containment to a "regional balancer" role (this study will use the "regional balancer" strategy, rather than some proposed alternative, to assess the strategic value of the U.S.-Japan alliance and Japan's role in American strategy).

Fourth, the trade balance, industrial competitiveness and economic sovereignty will continue to be potent political issues in the U.S., and Japan will remain the main foreign target of American criticism in this regard (domestic causes of and solutions to U.S. economic problems are not a focus of the analysis; but, this should not be interpreted as a dismissal of their legitimacy or importance).

Fifth, underlying domestic and regional developments (positive as well as negative) impacting on Japan's security strategy and international role will continue to shape its policies and limit its ability to change policy directions except at its own measured pace. This reluctance to change also applies to economic matters as Japan's successful strategy has led many Japanese to adopt the attitude that they have nothing further to gain at this time from the West and indeed that the opposite is the case²¹ (for this reason the study focuses on U.S. interests and policy options, and

assumes that an American approach which counts on rapid, meaningful Japanese change, even under swiftly evolving international conditions or persistent U.S. pressure, will not succeed).

II. EVOLVING AMERICAN PERCEPTIONS OF JAPAN'S ROLE IN POSTWAR U.S. STRATEGY

A. JAPAN: "THE VANQUISHED" (1945-1948)

In proclaiming its "unconditional surrender to the Allied Powers," the Japanese government submitted itself "to carry out the provisions of the Potsdam Declaration..., and to issue whatever orders and take whatever action may be required by the Supreme Commander for the Allied Powers [SCAP] or by any other designated [Allied] representative."²² In effect, the vanquished nation yielded its destiny to occupation authorities. For all practical purposes, this equated to American control of Japan's future. Despite the token participation of non-U.S. occupation forces as well as the formation of Allied organizations to formulate, implement and monitor occupation policies, they exercised little real power in the face of effective American dominance of Japan's postwar administration.²³

This domination of both policy-making and the means to implement it supported, but by no means guaranteed, the attainment of America's broad goal of insuring "that Japan will not again become a menace to the United States or to the peace and security of the world."²⁴ A specific course of action was required to translate the basic Potsdam ideals

of demilitarization and democratization into reality. Two contending approaches emerged.

One approach, advocated by the so-called 'China Crowd,' favored a "punitive peace, laying emphasis on the reform of Japan, not its recovery."²⁵ Specifically:

They proposed that most of the existing political and economic structure should be dismantled, which would slow up Japan's post-war progress to China's advantage and prepare the nation for recasting in a more acceptable mould. In particular, the Emperor system, the principal symbol of feudal prestige and unrepresentative power, should be abolished and the stranglehold of the *zaibatsu* on industry broken, as necessary preliminaries to the foundation of a peaceful democracy.²⁶

A more tolerant approach favored by the 'Japan Crowd,' led by former Ambassador to Japan Joseph Grew, "...freely acknowledged the need to rid Japan of militarism. The difference was that the Japan Crowd had more faith in Japan's capacity to reform herself."²⁷ They advocated social stability and economic recovery. Political reform would be imposed but would be encouraged by nurturing the pro-western tendencies of those liberal elements which had been stifled by the rise of militarism. Significantly, they favored retaining the Imperial institution and preserving Japan's cultural heritage.²⁸

While initial policy reflected elements of both approaches, the rise of a number of China crowd members to key State Department and occupation positions in the early post-war period produced a fairly activist occupation plan. Although the Emperor was to be retained, at least

temporarily, and the Allied Powers were not to "impose upon Japan any form of government not supported by the freely expressed will of the people,"²⁹ the main thrust of initial U.S. post-surrender policy for Japan clearly reflected China crowd thinking. Total disarmament and demilitarization would be accompanied by an extensive purge. Civil liberties and democratic processes would be encouraged, if not simply imposed. Military industrial potential was to be converted to civilian uses, transferred abroad or scrapped, and large industrial and banking combinations (*zaibatsu*) dissolved. The Allies were not to undertake the burden of repairing war damage and were "not [to] assume any responsibility for the economic rehabilitation of Japan or the strengthening of the Japanese economy."³⁰ Finally, reparations would be exacted to compensate the Allies for war damage.

In practice, however, the implementation of occupation policy reflected the "highly personal stamp" of its Supreme Commander, General Douglas MacArthur, who sought to "lead a 'spiritual reformation' that would bring democratic and Christian values to Japan."³¹ As a consequence, "Washington's influence was uncertain, filtered through MacArthur's personality and the SCAP hierarchy, while that of the nations that had aided in the war against Japan was virtually non-existent."³² MacArthur embarked on his mission with zeal. He rapidly demobilized and destroyed the Japanese war machine, initiated a sweeping (though not

altogether thorough) purge of former Japanese militarists and their supporters, and instituted significant educational, labor and land reforms. He deftly orchestrated the promulgation of a new liberal democratic constitution, which included a clause eliminating Japan's armed forces and denouncing war as the sovereign right of a nation. He also retained but downgraded the status of the Emperor, began dismantling the *zaibatsu*, and legalized independent political parties and labor unions. Certain of the reforms were to prove deep and enduring, others superficial, and some largely unsuccessful.

Among the failures appeared to be SCAP's economic program. By 1947:

The practical difficulties involved in dismantling the *zaibatsu* networks were already making themselves felt. But more urgently, the Japanese economy had totally failed to recover from the ravages of war. On the contrary, inflation had soared wildly and the food situation was one of permanent crisis.... America faced the prospect of staving off Japan's financial ruin indefinitely through emergency aid, with no return on the investment--a burden the American taxpayer was increasingly unwilling to bear.³³

With the visibility and activity of Japanese communists growing as the result of labor and political liberalization, Washington became concerned that Japan's economic weakness, potential political instability and lack of an effective civil police force made it vulnerable to communist-inspired subversion. Contemporary events in Eastern Europe and elsewhere in Asia only reinforced this concern. Still,

MacArthur pressed for an early peace treaty to end the occupation, possibly coupled with a complete demilitarization agreement under international guarantees for Japan's security and neutrality.³⁴

However, in October 1947 George F. Kennan's Policy Planning Staff (PPS) at the State Department foresaw "great risks in an early relinquishment of Allied control over Japan."³⁵ Specifically, they warned "if Japan is not politically and economically stable when the peace treaty is signed, it will be difficult to prevent communist penetration."³⁶ A year later, in a National Security Council (NSC) report, Washington's position shifted even more markedly away from an early treaty. Emphasizing recovery, stability and security over reform, NSC 13/2 recommended that "...in view of the serious international situation created by the Soviet Union's policy of aggressive Communist expansion, this Government should not press for a treaty of peace at this time."³⁷ Regarding political aspects of the occupation, the report recommended that "responsibility should be placed to an increasing degree in the hands of the Japanese Government" and "that emphasis should be given to Japanese assimilation of the reform programs."³⁸ More specifically, no further reform legislation should be pressed on the Japanese and pressures for implementation of on-going reforms should be relaxed. Furthermore, the purge was to be brought to an end.

On security matters, NSC 13/2 called for the retention of U.S. forces in Japan at least until a peace treaty was effected. However, it deferred consideration of post-treaty security arrangements, preferring to base those requirements on the international situation and internal Japanese security conditions prevailing at the time of treaty negotiations. Meanwhile, "the Japanese Police establishment, including the coastal patrol, should be strengthened by the re-enforcing and re-equipping of the present forces...."³⁹

Finally, the report recommended that "second only to U.S. security interests, economic recovery should be made the primary objective of United States policy in Japan for the coming period."⁴⁰ This goal was to be pursued through a "combination of United States aid...on a declining scale over a number of years, and by a vigorous and concerted effort...to cut away existing obstacles to the revival of Japanese foreign trade...to facilitate restoration and development of Japan's exports."⁴¹ In support of this, reparations would be scaled back and further efforts to reform the *zaibatsu* industrial/financial combines were to be abandoned.

The basic shift of policy implied in NSC 13/2 represented the first fundamental change in U.S. views of Japan's place in postwar American strategy. From the "vanquished" enemy subject to reform and military-industrial containment,

Japan came to be viewed as the "dependent" ally whose recovery would make it the anchor of the U.S. security perimeter in East Asia.

B. JAPAN: "THE DEPENDENT" (1949-1969)

As Cold War tensions mounted, the recommendations of NSC 13/2 were largely adopted and the United States incorporated Japan into its "defensive perimeter" against Communist expansion in Asia.⁴² Indeed, according to then Secretary of State Dean Acheson, "...were Japan added to the Communist bloc, the Soviets would acquire skilled manpower and industrial potential capable of significantly altering the balance of world power."⁴³ Based on the theory of Moscow-inspired international communist expansion, events in China and Korea seemed only to reinforce the perceived danger to Japan. In response to this growing threat, the U.S. committed itself not only to Japan's economic rehabilitation but also to "the necessity of assuming the military defense of Japan so long as that is required, both in the interest of our security and in the interests of the security of the entire Pacific area."⁴⁴

As reflected in NSC 48/5 of May 1951, U.S. aims toward Japan, both then and in the post-treaty period, were to be: 1) to "assist Japan to develop a sound economy," 2) to "speed the building of military defenses," and 3) to "establish long-term relationships between the United States

and Japan which will contribute to the security of the United States." The accomplishment of these goals would provide for "the maximum deterrent to the Kremlin in the post-treaty period [by creating]...a Japan with a rapidly and soundly developing economy, internal political stability, and an adequate military capability for self-defense."⁴⁵ Indeed, according to an earlier military staff study, "an economically strong, friendly and Western oriented Japan would be of [such] great value to the United States" that the only alternative, should the U.S. "decide not to protect Japan," would be to deny any potential Soviet gain "by seeking the closest approximation possible to a depopulated and devastated Japan."⁴⁶ The latter option was considered "illogical" and was rejected.

In light of Japan's fragile economic position and acute military vulnerability, American analysts recognized that Tokyo would continue to depend on "U.S. provided military protection and economic support" for some time after the occupation period ended. While it was recognized that "Japan has sufficient manpower and industrial facilities to enable it, within a few years, to assume a large and growing share of its own military defense," it was also understood that "progress would be impeded by widespread war weariness, fears of a resurgence of militarism, and concern over economic hardships" as well as the legal obstacle presented by Article Nine of the Japanese constitution.⁴⁷ The latter,

American imposed impediment, would become a source of frustration to U.S. policy-makers in subsequent years.

The U.S.-Japan Security Treaty of 1951 formalized an arrangement by which Japan, recognizing its lack of "the effective means to exercise its inherent right of self-defense," would depend on U.S. forces based "in and about Japan...to contribute to the maintenance of international peace and security in the Far East and to the security of Japan against armed attack from without...." Japan committed itself to little more than maintaining domestic order and even then recognized the potential need to request U.S. assistance "to put down largescale internal riots and disturbances in Japan, caused through the instigation or intervention by any outside Power or Powers."⁴⁸

For the Japanese, the acceptance of U.S. security guarantees and associated military presence in Japan, though not without controversy, appeared to be the best compromise between the extremes of a vulnerable neutrality and an even more unlikely independent rearmament. In view of Japan's postwar economic dependence on the U.S., its international status as a "defeated" and therefore untrustworthy nation, and the polarization of the Cold War world, the Japanese probably had little real choice but to align themselves with the United States. Acceptance of U.S. patronage and security guarantees actually worked to Japan's advantage,

allowing it to concentrate resources on economic rather military recovery.

More than any other single event, the Korean War marked the beginning of Japan's postwar recovery. The war led to the creation, at American insistence, of the National Police Reserve (NPR) in July 1950--forerunner of the Japanese Self-defense Forces (JSDF). While responsible for no more than internal security, the NPR represented the first significant step toward rearmament. The war also proved to be an economic boon for Japan as a result of preferential U.S. procurement policies which pumped approximately \$30 million a month into the Japanese economy between July 1950 and February 1952.⁴⁹

American interest in Tokyo's economic recovery took other forms as well. Concern over Japan's need for access to Southeast Asian raw materials and markets contributed to U.S. involvement in Indochina during the 1950s. In Japan itself, the U.S. provided about \$2 billion dollars worth of various types of economic aid between 1946 and 1956.⁵⁰ Tokyo also benefitted from its partnership in American aid programs, supplying "more than \$450 million worth of commodities and equipment to ICA [the U.S. International Cooperation Administration] programs..." in Asia between 1954 and 1958.⁵¹ The United States government also tolerated Japanese barriers to American imports while arguing against restrictions on Japan's growing low-cost

exports to the U.S. In the view of American leaders, "Japan must export to live" and the denial of "free-world outlets for her products" would compel Japan "to become dependent as a last resort upon the Communist empire."⁵² Finally, to boost the economic recovery of Japan and other vulnerable free-world nations, U.S. firms were encouraged to transfer American technology and capital abroad. Because of Tokyo's restrictive import and foreign investment policies, American companies found that the sale of technology licenses was one of the few means of profiting in the Japanese market. These early technology "give-aways" would come back to haunt American manufacturers in later years.⁵³

By the late 1950s/early 1960s, Japan's rapid economic recovery led to a shift in American rhetoric, away from references to Tokyo's dependence on the U.S. toward Japan's role as fellow "world power" and U.S. "partner."⁵⁴ The underlying reality placed significant limits on such characterizations, however. While the 1960 U.S.-Japan Security Treaty did much to restore Japanese sovereignty, Tokyo remained dependent on the U.S. for its external defense. A condition which had been acknowledged in Japan's 1957 Basic Policy for National Defense. In 1962 President Kennedy reiterated Japan's economic dependence on the U.S. as a market for and sponsor of its exports when he publicly highlighted the "need [for] the bargaining tools of the new

[American] Trade Expansion Act to bring Japan fully into the free-world trading system."⁵⁵

These themes of implied dependence continued as late as 1965 when an Assistant Secretary of State noted that "Japan's economic growth and rising living standards since the war have rested heavily on its trade with the U.S."

Furthermore, he noted:

Militarily, we share a vital stake in Japan's safety from subversion and attack. Transfer of Japan's great human and industrial resources to the communist side would so drastically affect the balance of world power as to be of hardly less concern to us than to Japan itself. Japan's defense forces are assuming increasing responsibility for Japan's home defense, but political-military realities in the Far East continue to make far-reaching mutual security arrangements essential to both Japan and the U.S.⁵⁶

While Tokyo, owing to its growing economic strength, was expected to share in the task of regional economic assistance during the 1960s, the U.S. did not "yet see a sharing by...[Japan] of the task of assisting in [regional] security" even as late as 1968.⁵⁷ Furthermore, it was asserted at the time, "relief from this burden has contributed in a fundamental way to Japan's capability for economic and social growth."⁵⁸

Thus, by the mid- to late 1960s Japan's "economic miracle" was in full swing accelerated by, if not largely the result of, the indirect subsidies derived from American postwar economic and security patronage. This asymmetric relationship, justified in American eyes by Cold War security imperatives, was also acceptable to Japanese

leaders who, according to historian Kenneth Pyle, "welcome[d] the dependence on the United States."⁵⁹ Indeed, Tokyo's acceptance of dependency "assured Japanese security without the burden of massive defense expenditures,... facilitated the accelerated rebuilding of Japanese industry, and...got Japan virtually unimpeded access to the largest market and the best technology in the world."⁶⁰ It also neatly fit the Japanese culture's hierarchic view of relationships--even those at the state-to-state level. However, by the late 1960s, America's growing frustration in Vietnam as well as the shift in the U.S.-Japan trade relationship from consistent surplus to persistent deficit led many Americans to reconsider the costs and benefits of Japanese dependency. Indeed, Japan's growing economic wealth seemed to obviate the need for such dependency at all.

C. JAPAN: "THE ALLY/PARTNER" OR "THE FREE RIDER/ECONOMIC ADVERSARY" (1969-1989)

By the mid- to late 1960s, American views of Japan began sharply to diverge. While Japan was still viewed as a military ally, it was also increasingly seen to be a "free rider" which benefitted substantially from the U.S. security umbrella but failed to share the cost of those defense burdens at a level commensurate with its economic capability. In the economic arena, Japan was seen to be a key U.S. partner based on its status as America's largest overseas trade partner as well as its increasingly important

contributions to U.S. regional development goals. However, because Japan "continue[d] to enjoy virtually unrestricted trade and investment opportunities in the United States while American trade and investment in Japan...[were] still subject to so many limitations," there was a growing frustration in the U.S. "that elements of economic reciprocity...[were] lacking in the relationship."⁶¹

1. "Ally" versus "Free Rider"

Emergence of the military "free ride" assertion was based on the perception that:

Since 1945 only a very modest part of Japan's national resources has been devoted to military use. In 1965 only 1.3 percent of Japan's GNP went into military use. Relief from this burden has contributed in a fundamental way to Japan's capability for economic and social growth.⁶²

This outcome was not wholly unintended--as has been discussed, American policy-makers had given priority to Japan's economic recovery for nearly two decades and had been willing, in the meantime, to subsidize Japan's defense. Although asymmetric, this was not a wholly one-sided arrangement. While the U.S. committed itself to Japan's defense without any reciprocal commitment from Tokyo, the Japanese conceded a significant level of sovereignty in allowing U.S. forces virtually unrestricted access to a strategically located set of military bases and accepted the risk of involvement in any global conflict between the U.S. and the Soviet Union.

Nonetheless, as then Ambassador John Foster Dulles warned in 1951: "The U.S. is not willing to station forces in Japan for very long unless the Japanese do...all they can for their own defense;" otherwise, "...their tendency is all too likely to be to...seek the continued presence of U.S. forces, and to concentrate on raising their standard of living."⁶³ Sixteen years later presidential aspirant Richard Nixon appeared to be reiterating this same concern when he wrote of Japan: "Looking toward the future, one must recognize that it simply is not realistic to expect a nation moving into the first rank of major powers to be totally dependent for its own security on another nation, however close the ties."⁶⁴

The Nixon Doctrine of 1969, heavily influenced by the escalating costs and frustrations of America's Vietnam involvement, was an attempt to transfer defense responsibilities and costs to more capable U.S. allies in Asia, including Japan. Thus, according to the Nixon Doctrine, while the U.S. would maintain its treaty obligations as well as a nuclear umbrella, "in cases involving other types of aggression, we shall furnish military and economic assistance...but we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."⁶⁵

As a result of this policy shift, the contention that Japan was "totally dependent for its own security on

another nation [the U.S.]"⁶⁶ was supplanted in a short two and one half years by the American position, though not the reality, that "Japan's already substantial armed forces are now responsible for their country's immediate conventional defense."⁶⁷ This revised view of Japan's security responsibilities and capabilities was probably meant not only for consistency with the larger policy but also to encourage greater Japanese defense efforts as well as to assuage "free rider" critics. It was still acknowledged, however, that beyond "responsibility for its own conventional defense,... it is doubtful whether there is much more that...[Tokyo] could do that would directly relieve United States military responsibilities in Japan, almost all of which are related to regional commitments."⁶⁸ Indeed, "Japanese-American friendship and cooperation...[would remain] the linchpin for peace in the Pacific."⁶⁹

While superpower detente and post-Vietnam U.S. retrenchment diverted American attention away from U.S.-Japan security issues, the Japanese grew concerned over the apparent "decline of America's economic and military power and questioned the ability of the United States to maintain its commitments in the Western Pacific."⁷⁰ Japanese concerns were exacerbated by the so-called "Nixon shocks" and especially by U.S. rapprochement with the PRC, a major policy shift made without consultations with Tokyo.

These developments encouraged a relatively small number of nationalistic Japanese leaders to advocate a more politically independent and militarily "autonomous" Japan. However, declining superpower tensions during the early to mid-1970s and persisting domestic and regional constraints on Japanese rearmament led Tokyo to adopt a fairly modest National Defense Program Outline (NDPO) in 1976. The NDPO set out a force structure framework based on a "minimum necessary level of defense forces" but set no specific procurement timetable⁷¹; instead, acquisition would be kept within the adopted limit on defense expenditures of one percent of GNP. In 1980 the Japanese formulated the concept of "comprehensive national security" which envisioned the application of a combination of political, economic and self-defense measures, rather than military capabilities alone, to safeguard Japan's security interests.

By the late 1970s, however, growing Soviet adventurism became a matter of concern to both Japanese and American leaders. The Carter Administration, concerned by both Soviet actions as well as a deteriorating U.S. economy, renewed pressure on Tokyo to assume greater defense burdens by accelerating rearmament. This pressure was intensified by an even more vocal American Congress. In its 1981 Defense White Paper Japan responded by specifically identifying the USSR as its major security threat.⁷² However, its

tangible defense contributions continued to fall short of most American expectations.

Thus, the revival of conflict between U.S. views of Japan as ally versus "free rider" came to be framed within the debate over the appropriate level of defense "burden sharing" by Tokyo. During the Carter years this debate centered on Japan's assumption of greater costs of defense; later, during the Reagan years, it would shift to an emphasis on responsibilities, often referred to as military "roles and missions." Japan did, in fact, respond to pressure to increase its cost share by such actions as its 1978 initiative to begin "host-nation support" payments to the U.S. government as an off-set to the costs of maintaining American forces in Japan. Tokyo also agreed to efforts to coordinate planning, increase interoperability and expand bilateral exercises under the 1978 U.S.-Japan Guidelines for Defense Cooperation. Explicit Japanese recognition of the Soviet threat was welcomed by Washington as well. However, Tokyo's security contributions still failed to meet what many Americans, in and out of government, considered appropriate given Japan's growing trade surpluses and the size of its GNP (already by the late 1970s the second highest in the free world). As a result, divergent U.S. views of Japan persisted.

For example, a year and a half after President Carter commented that "the security relationship between the

two countries has never been so strong and mutually advantageous as at present,"⁷³ his Defense Secretary, Harold Brown, would strongly criticize Tokyo by remarking in December 1980 that Japan's 1981 defense budget "falls seriously short, whether measured by the security situation,...or by considerations of equitable burden-sharing."⁷⁴ This latter statement was supported by an earlier 1980 Congressional study which called for Japan to "assume a greater role in its own defense and that this should entail real increases in defense spending."⁷⁵

The Reagan Administration initially echoed the policy of praise for the overall security relationship but criticism of Japan's inadequate defense cost sharing. In April 1981, for example, one top administration official referred to "our relationship with Japan...[as] the cornerstone of our policy in Asia...[as well as] one of the most close and vital relationships in our global alliance structure,"⁷⁶ while another lamented that "Japan's capability for self-defense at this point remains short of what is clearly required."⁷⁷ Later that year the American approach began to shift after then Prime Minister Suzuki specifically committed the JSDF to "defend its own territory, the sea and skies around Japan, and its sealanes to a distance of 1000 miles."⁷⁸ As result, although "the burden of the meaningful defense of Japan still rest[ed] largely with the United States," the U.S. was encouraged that "meaningful United

States-Japanese defense burden-sharing goals...[had] been set and publicly acknowledged at the highest levels for the first time in the post-1945 era."⁷⁹

Tokyo's commitment to sealane defense and the vocal support it received from Suzuki's successor, Yasuhiro Nakasone, led to a new U.S. emphasis on responsibility vice cost sharing by Japan. In the defense arena this led to a concentration on expanded "roles and missions" for the JSDF, within the framework of the U.S.-Japan alliance, rather than increased defense expenditures per se (though certainly the latter was expected to result). The responsibility sharing concept also emphasized a regional and even global partnership in the pursuit of diplomatic and development goals. One writer has characterized this as a fundamental strategic shift from an emphasis on a U.S.-China axis in East Asia during the 1970s to a U.S.-Japan axis in the 1980s.⁸⁰ Whether or not this was the case, the policy of focusing on U.S.-Japan responsibility sharing and partnership persisted through the 1980s and achieved some notable successes (e.g., Japan's brief breach of the one percent GNP limit on defense expenditures, its accession to the position of the world's largest dispenser of foreign aid, its growing host-nation support payments to Washington and its agreements to share military technology with the U.S.). However, the tendencies of the Reagan and Bush Administrations publicly to downplay divisive burden sharing issues and highlight these

accomplishments have not squelched criticism from other quarters, especially a vocal group of American Congressmen.

During the 1980s, the Congress made several efforts to pressure Japan to increase its defense expenditures as well as its host-nation support for U.S. forces in Japan. Record U.S. budget shortfalls and trade deficits with Japan as well as continued frustration with Tokyo's trade and business policies account for much of this activity. In addition to earlier attempts to induce Japan to increase defense expenditures, the 1990 Defense Appropriations Bill urged the President to negotiate 100 percent Japanese host-nation support for U.S. forces stationed there. The 1991 bill initially included language threatening a phased American withdrawal from Japan if Tokyo failed to assume the full costs of support for U.S. forces in Japan.⁸¹ Thus, even as international security conditions began rapidly to change in the late 1980s, the U.S. debate over Japan's appropriate alliance contribution continues to revolve around the free ride perception.

The persistence of conflicting views of Japan the "strategic ally" versus Japan "the free rider," which have intensified over the past twenty years, are not conducive to a stable and mutually beneficial long-term security relationship. However, the relevance of the debate itself may be diminishing as a result of the profound changes in the international security environment since November 1989 when

the Berlin Wall came tumbling down. This is not to imply that there are not troubling issues in the U.S.-Japan relationship still to be resolved, only that they must be examined in a new context of post-Cold War American and Japanese security interests.

2. "Partner" versus "Economic Adversary"

The economic partnership between Japan and the United States which contributed to Japan's postwar recovery and to regional development in South Korea, Taiwan and Southeast Asia, began seriously to unravel in the late 1960s. American concern over the threat to U.S. jobs from cheap Japanese exports as well as frustration over Tokyo's protectionist policies, though evident since the 1950s, hardened as a result of persistent U.S. trade deficits with Japan that began in 1965. While continuing to emphasize the importance of Japanese economic strength and the U.S.-Japan commercial partnership, already by the mid-1960s America's largest transoceanic trade relationship, U.S. officials and businessmen began to call for an end to the era of "special privileges" and unreciprocated trade benefits enjoyed by Japan.⁸²

Japanese-U.S. economic relations suffered major strains as a result of the textile dispute of 1968-69 and the Nixon "economic shocks" of 1971 including the unilateral decisions to suspend convertibility of the dollar to gold, to adopt floating exchange rates and to impose a ten percent

surcharge on imports. Declining U.S. economic performance and accumulating government debt during the 1970s coupled with a growing American trade deficit with Japan and increasingly visible Japanese penetration of key U.S. market sectors--such as steel, consumer electronics, and compact automobiles--heightened American awareness of and concern for Japanese economic competition.

Despite the deteriorating economic imbalances and growing Congressional and business community frustration with Japanese trade policies, successive American administrations have adhered to free trade principles supported by the position that such a large and complex economic relationship cannot be "entirely free of difficulties,"⁸³ that this will "inevitably produce some friction,"⁸⁴ and that "successful management of the tensions...is essential"⁸⁵ to preserving the larger political and security partnership. Throughout most of the 1970s and 1980s the primary American approach to resolve U.S.-Japan trade disputes was to pursue case-by-case bilateral negotiations to open specific Japanese market sectors or to protect American manufacturers threatened by Japanese competition. However, a growing bilateral trade deficit through the mid-1980s, peaking at \$52 billion in 1987,⁸⁶ appeared to discredit these efforts.

Largely as a result, since the late 1980s a number of vocal critics, the so-called revisionists or "Japan-bashers," have argued that the inadequacies of U.S.

economic and trade policies toward Japan reflect a fundamental misunderstanding of Japanese national goals, their economic system and the cultural values which underlie both.⁸⁷ They further assert that Japan is a "neomercantilist" state which does not embrace the same free trade goals as the U.S. or share America's vision of world order.⁸⁸ Failure to recognize this, or to negotiate and compete with the Japanese on the basis of these realities, renders U.S. trade policy toward Japan ineffective--an argument that will be examined in more detail later. Furthermore, these and other critics argue that Japan, which became the world's largest creditor nation in 1986 even as the U.S. became the world's largest debtor, is promoting American financial dependency through massive Japanese foreign direct and portfolio investments in the U.S.⁸⁹

Despite recent net outflows of Japanese investment in U.S. government securities as well as the declining American trade deficit with Japan over the past three years (owing to such factors as Japanese market opening and off-shore production, a more realistic yen-dollar exchange rate, greater export emphasis by American manufacturers and the U.S. recession), critics contend that these represent only the temporary reversal of a trend. Permanent resolution of the structural imbalances in the U.S.-Japan economic relationship cannot occur, they believe, without fundamental changes in U.S. and Japanese domestic economic policies and

in American trade policies toward Japan (the latter buying the time to accomplish the former). A vocal faction of protectionist U.S. Congressmen as well as a growing segment of the American public, according to recent polls, seem to agree. Indeed, even the American government now appears to recognize that Japan is different and must be dealt with accordingly. This is reflected in the shift in trade negotiating strategy from a case-by-case approach to the more comprehensive Structural Impediments Initiative (SII). The SII emphasizes broad Japanese structural barriers to imports (economic, political and even cultural) rather than specific tariffs or non-tariff barriers, as well as U.S. domestic impediments to trade competitiveness.⁹⁰

The mounting tensions in the U.S.-Japan relationship created by conflicting images of "global partner" and "economic adversary" can only be exacerbated by the growing perception of a "new world order," brought on by the watershed events of late 1989 and early 1990, in which the factor of national economic power appears more weighty than military capability. The persistence of serious U.S.-Japanese economic-strategic imbalances could make the construction of a genuine partnership difficult, if not impossible, for the foreseeable future.

D. IMPLICATIONS OF POSTWAR AMERICAN PERCEPTIONS OF JAPAN

Postwar American views of Japan have been shaped by the unique circumstances created by Cold War security conditions. In a zero-sum, bipolar world, U.S. interests supported the creation of an economically strong Japan closely tied to the West and dependent on American security guarantees. Indeed, this paramount goal was allowed to supercede American economic interests during a period when U.S. industry clearly dominated the non-communist international economy. However, America's declining economic performance beginning in the late 1960s as well as its frustrating experience in Vietnam led to a reassessment of the structure and scope of U.S. alliance commitments.

Japan's continued reliance on non-reciprocated trade benefits as well as the deferral of security responsibilities and costs to the United States, despite its strong economic resurgence during and after the 1960s, drew particular criticism from some Americans. Although the character of this criticism has evolved over the past three decades, it continues to color the relationship and remains a strong counterpoint to the view of Japan as a critical strategic ally of the U.S. The coexistence of these ambiguous views of Japan's role in American strategy--"ally" but "free rider", "partner" but "economic adversary"--have placed significant strain on the relationship. Changing

international security conditions, beginning in 1989 with the fall of the Berlin Wall, promise to further intensify the contradictions between these conflicting views of Japan.

III. CURRENT CONTEXT OF JAPAN'S ROLE IN U.S. STRATEGY

A. THE NEW INTERNATIONAL SECURITY ENVIRONMENT

1. The End of the Cold War

Because the evolution of the postwar U.S.-Japan relationship owes much to Cold War security considerations, recent international events have significant implications for the future of the alliance. As described earlier, the primary rationale for emphasizing the strategic importance of American-Japan relations while largely downplaying divisive economic issues has been the imperatives of the American strategy for containing Soviet expansionist aims. During the late 1960s, the purpose of this approach shifted from an effort to shore-up the Japanese "counterweight to Communist strength in Asia"⁹¹ toward a "division of labor" in which Japan would share political, economic and military burdens with the United States. This new emphasis, which still guides U.S. policy, was from the beginning fraught with underlying tension since it tacitly validates the very free ride argument which the critics of U.S.-Japan relations have long put forward. These tensions have intensified as Japan's economic imbalances with the U.S. have grown and efforts to redress them, either through trade negotiations or burden sharing initiatives, have lagged.

Despite the intensifying contradiction between American views of Japan, successive American administrations have relied on the unifying impetus of the security relationship to overcome the divisive forces of economic rivalry and frustration. Although government-to-government crises have periodically flared (e.g., over textiles, semi-conductors, FSX development and Super-301 citation), this approach has largely succeeded in holding official relations together. However, radically changing international security conditions suggest that the key underlying rationale for the U.S.-Japan security relationship--the threat of Soviet or Soviet sponsored expansion--has significantly diminished. Although recent events in the USSR raise some doubts as to the permanence of Moscow's policy changes, there is reason to believe that Soviet power can be checked in the future without a return to the predominant Cold War containment strategy.

The dissolution of the Warsaw Pact, the shift to a defensive Soviet military doctrine, domestic ethnic and political divisions, and a deteriorating economic situation, which may prove unsalvageable without Western assistance, militate against the renewal of Soviet expansionist policies in the immediate future even under a more hard-line leadership. This is not to suggest that international political competition between the U.S. and the USSR will cease altogether in a post-Cold War world nor does it preclude the

possibility of a resurgent Soviet Union with national interests in direct conflict with those of the United States. However, the bipolar zero-sum ideological struggle which has dominated the global security environment and the American world-view for the past forty-five years seems likely over time to be replaced by a more historically typical international system. This essentially non-polar environment would be characterized by nation-state competition for such traditional measures of national power as market and resource access, financial wealth, political influence, technological superiority as well as military capability. The endurance of Cold War-era collective or bipolar security alignments cannot be taken for granted in such an international system unless they can prove their continued validity based on a new set of mutual interests.

While changing conditions in the USSR have had more profound influence in the political and military landscape of Europe than the Asia-Pacific region, significant changes are no less evident. Sino-Soviet rapprochement, South Korean-Soviet normalization, declining Soviet military presence in Vietnam and diminishing aid to both Hanoi and Pyongyang, Vietnamese withdrawal from Cambodia, some preliminary signs of North Korean opening to Japan and South Korea, North and South Korean application for separate U.N. memberships, and Soviet force reductions in the Far Eastern theater which "appear to be proceeding generally in

accordance with Gorbachev's stated commitment"⁹² are among the trends suggesting that the Cold War is drawing to a close in East Asia as well.

Despite these positive trends, some Cold War era conflicts remain unresolved--tensions in the Korean peninsula, civil war in Cambodia and the Japanese Northern Territories dispute, for instance. However, with the exception of the latter, the Soviet role in these conflicts has diminished (and even in the latter case its role is being challenged by one of its own republics). The Soviet military has reduced its presence outside of its territory and adjacent seas, Soviet aid to former allies such as Vietnam and North Korea has been significantly curtailed and the appeal of the Soviet model, past or present, has virtually disappeared. East and Southeast Asia are no longer ripe targets for Soviet expansion nor does Moscow appear to possess the wherewithal to pursue such policies. Where they are building political bridges, as with South Korea, Soviet motives appear to be economic, not ideological. Based on these and other developments, the Chairman of the U.S. Joint Chiefs of Staff has concluded: "In the Pacific, it is unlikely that the Soviets would initiate hostilities that threaten our interests."⁹³

The net effect of these changes on U.S.-Japan relations is to undercut the key element of the strategic equation which has provided the "glue" for the relationship.

Without the Soviet threat the military-strategic imperative for the security alliance is seriously diminished. While other threats to Japan are possible--a newly belligerent China or nuclear capable North Korea, for instance--they are either unlikely or could probably be managed diplomatically. Indeed, the end of the Cold War, which began with the collapse of the Berlin Wall in November 1989, represents a watershed in the context of U.S.-Japan relations probably as fundamental as that which was ushered in by the beginning of the Cold War in the late 1940s.

Thus far, in response to the "real and/or perceived reduction of the Soviet threat," as well as domestic fiscal constraints, the United States has refocused its Asia-Pacific military role to one of "regional balancer, honest broker, and ultimate security guarantor"⁹⁴ and has initiated a force drawdown in the region. While this new strategic focus continues to view Japan as the "critical linchpin," the rationale for such a characterization seems overstated in the absence of a significant Soviet threat. Without this strong and clear-cut strategic underpinning, the credibility of much of the rhetoric which has been used to overshadow divisive economic issues in the U.S.-Japan relationship may be undercut. This is particularly true in a new global environment in which economic competitiveness and power may be as relevant as military capability.

2. The Persian Gulf Diversion

Some observers of recent events, particularly the Persian Gulf crisis and war, assert that the end of the Cold War has had less impact on the global security environment than was assumed prior to the second of August 1990. Specifically:

The slow build-up towards the Gulf War and the swift, one-sided execution by the U.S.-led coalition have put to test some notions about the post-Cold War world that were becoming fashionable, if not universally accepted, in Washington policy circles before Iraq invaded Kuwait in August.

The first such idea to be challenged by the Gulf War is that the end of the Cold War would make economic power paramount and, thus, transform Japan and Germany into new superpowers and rivals of the U.S. One implication of this was that Japan was a more serious threat than the Soviet Union to the security of the U.S., now only first among equals. After the Gulf War, the dividing line between those who can act militarily and those who cannot suddenly appears important once again.⁹⁵

Others argue that the Persian Gulf episode has demonstrated that the "new world order" emerging in the wake of the Cold War is not a multipolar but a unipolar international system dominated by the United States. Indeed:

Already there are mutterings about a unipolar world, a new American century, and how Japan and Germany can be bossed around. Such unilateralists do not buy talk of coalitions: 85% of the troops in the Gulf, they point out, were American; the decision to go to war was Mr. Bush's; left to itself the U.N. would have tried to resolve the consequences of Iraq's aggression by sanctions alone; the Europeans are incapable of speaking with a common voice, the Japanese of making up their minds. However many allies join in, it is America that will have to do the confronting and disarming of outlaw states. Better that it believes in its own rightness and gets on with it.⁹⁶

These arguments suggest that the end of the Cold War has not significantly altered the predominant role of military power and alliances in the global security environment. In this view, Cold War era military security relationships such as the U.S.-Japan alliance remain as relevant as before; and the assertion that economic competitiveness should share equal consideration with military threats in American national security planning is largely discounted.

While there is legitimacy to the belief that "the value of military clout did not vanish with the ending of the Cold War,"⁹⁷ events in the Persian Gulf should not be viewed as more than a temporary diversion from post-Cold War trends. Indeed, whatever lessons the U.S. government has learned from the Gulf War, none have led to a reversal in course from its initial post-Cold War policy directions.

For example, despite the Gulf experience the Bush administration has submitted a "proposed 1992 defense budget [which] marks the first step in a massive restructuring of the military that will scrap the current command structure and shrink the force by one-fourth over five years." According to senior defense officials, this restructuring will produce "a military scaled to meet the U.S. defense needs in a relatively tranquil post-Cold War world."⁹⁸ The Gulf War has produced no reversal of course in America's planned five year military drawdown which continues to be

driven by the decline of Cold War tensions, the shift toward a "new world order" and fiscal realities.

While the shape of the new world order remains ill-defined in practical terms, the new importance of economic power was demonstrated, not discounted, by the Gulf crisis. Specifically:

The proof that economic power will indeed become crucial, if not paramount, is seen in the fact that more than 75% of the coalition's war costs are being paid by non-U.S. governments. The U.S. may have emerged from the Gulf War as the only military superpower as well as the only country capable of forging and leading a coalition of diverse nations, but it was clear it could not execute the war without financial help from Japan, Germany and the oil-producing allies.⁹⁹

And, while one could argue that the Gulf War demonstrated the importance of collective action, it should be noted that the coalition participants were either not bound by formal alliances at all or were acting outside the bounds of existing alliance obligations. Common interests, not treaty commitments created the Gulf coalition and preserved it. As a result, "realism suggests that Washington should approach future coalitions on a case-by-case basis, rather than relying on the gulf alliance as a model."¹⁰⁰

The Persian Gulf crisis does not invalidate the view that the end of the Cold War is producing a fundamental shift in the national security paradigm. The centrality of the Soviet military threat and communist expansion has given way to broader concerns including regional instability, economic competitiveness, nuclear proliferation, and

environmental and health threats. The implications of this shift are no less important for Japan than they are for the United States. However, due to domestic and regional constraints on their international behavior, the Japanese appear far less capable of decisive military-strategic action in the face of these changes than hoped for by the U.S. government.

3. Prospects for Change in Japan

Japan's postwar security policy and attendant military rearmament have always been subject to certain standards of domestic and regional acceptability. This reflects the need to overcome real but largely self-imposed constraints on Japanese security policy. As Donald Hellman has recently written, these constraints on a more independent or assertive Japanese security posture are based on three "myths:"

1. "Japan's constitutional limits on any change in the current restricted security role;"
2. "the profound domestic political opposition to expanded Japanese military activities;" and
3. "the deep fear felt in all East Asian nations (and the Soviet Union) at the prospect of a 'rearmed Japan'."¹⁰¹

Each of these "myths" deserves closer scrutiny.

The "myth" of a legal/constitutional constraint on Japanese security strategy is rooted in Article Nine of Japan's postwar constitution. Article Nine renounces "...war as the sovereign right of the nation" and goes on to

pledge that "...land, sea and air forces, as well as other war potential, will never be maintained" and "the right of belligerency of the state will not be recognized."¹⁰²

Because there is little international legal precedent for defining such terminology as "war potential" and "right of belligerency," the Japanese are left with wide latitude for interpreting the legal and policy implications of Article Nine. Japanese courts have largely sidestepped the issue, in one case declaring in effect that the "constitutionality of the SDF should be determined by the will of the people and built through consensus rather than a definitive legal stroke."¹⁰³ One analyst of the article describes it "...as an expression of Japan's anguish from the suffering endured during its previous war" which "...poses no specific legal obstacle to Japanese defense forces."¹⁰⁴

Thus, the policy choices which have resulted in the existence of the SDF, its purpose and mission, its size and force structure as well as the bilateral security relationship with the U.S. almost solely reflect political rather than legal considerations.¹⁰⁵ As a result, the only real legal/constitutional constraints on Japanese security strategy are those imposed by political decisions.

Although there are strong arguments for revising the constitution to make "laws correspond to reality,"¹⁰⁶ Japanese leaders have generally preferred to perpetuate the ambiguity associated with an "extraconstitutional" SDF.

This has contributed to the gradualist approach to Japan's postwar rearmament which has largely ensured that public and international consensus have kept pace with the evolution of Japanese security strategy. For instance, Japan has been able to use the legal/constitutional constraint argument as one means of deflecting U.S. pressures for security policy changes which would exceed the perceived bounds of domestic and regional acceptance. It seems particularly ironic for Japan to aim this argument at the Americans who imposed the postwar "peace" constitution on Japan. In reality then, there appear to be few, if any, absolute legal/constitutional constraints on Japan's security strategy, but only the relative limits of how far the Japanese government can go unilaterally without fomenting domestic political crisis or provoking unfavorable regional backlash.

The second "myth," that of domestic political constraints on expanded Japanese military activities, has its roots in Japan's catastrophic World War Two defeat and the Japanese public's consequent aversion to war. It is compounded by a Japanese "fear of themselves"--a concern that democratic institutions and political culture are not deeply rooted in Japanese society and could under certain conditions give way to militarism once again.¹⁰⁷ Despite the resulting pacifist-tending mood among the majority of the Japanese people,¹⁰⁸ the notion that this national consensus imposes absolute limits on Japan's security strategy is

challenged by the tolerance of a gradual but persistent evolution of that strategy over the past forty years.

During the 1950s, jet aircraft, submarines and aircraft carriers were considered to be unacceptable offensive weapons and Japanese self-defense began at the shoreline. Today Japan has jet fighters and diesel submarines in its inventory, has a VSTOL aircraft carrier on the drawing boards and has extended its defense commitment out into surrounding airspace and out to 1000 miles on the high seas.¹⁰⁹ A majority of the Japanese public has for some time recognized the necessity of the SDF and favors the U.S.-Japan security treaty.¹¹⁰ In addition, the main political opposition--the Japan Socialist Party--has accepted the SDF as "unconstitutional but legal" and has moderated its opposition to the U.S.-Japan security alliance.¹¹¹

Thus, although sudden dramatic shifts toward an expanded Japanese security strategy would almost certainly meet with serious and possibly disastrous domestic political opposition (the aborted pre-war plan to dispatch unarmed SDF troops to the Persian Gulf being a relatively mild example), gradual policy changes have clearly succeeded in the past. In the future such shifts might not require as much painstaking and time-consuming consensus building. According to Hellman:

It is a mistake...to derive long-term conclusions about the international role of Japan from a supposed deep and permanent commitment of the public to a place on the sidelines of power politics.... Since the Japanese public resembles other publics in an altered international environment, shifts in the mass mood are highly probable.¹¹²

Changing international and domestic conditions, the passing of the World War Two generation and more decisive or charismatic political leadership are examples of the types of factors which might remove some measure of the domestic political constraints on more timely expansion of Japanese military activities. In any case, future significant shifts in Japan's security strategy are not impossible and would likely be constrained only in pace of adoption and implementation rather than in substance (the recently announced postwar plan to dispatch SDF mine sweepers to the Persian Gulf is an example of such an unexpected policy shift¹¹³).

The third of Hellman's "myths" is the constraint imposed by regional fears of a revival of Japanese militarism, compounded in intensity by Japan's growing economic dominance of the area. It is argued that the strength of these fears militates against a wider military role for Japan in East and Southeast Asia. Suspicion of potential Japanese military intentions have deep historical roots in the legacy of Japan's exploitive, often brutal expansion and colonialism prior to and during World War Two.

Although new generations of Asians have no personal memories of this experience, Japan's constant reassurances

of its intention never to become a military power have not put the issue to rest for several reasons. First, "long-standing Japanese [economic] preeminence throughout the region in direct investment, trade, finance, and technology has yielded remarkably little goodwill" due to its often self-serving character and its isolation from any convincing political agenda.¹¹⁴ Second, in the eyes of many other Asians, Japan has failed to accept full and unambiguous responsibility for its "wartime and colonial activities."¹¹⁵ In fact, the "school textbook" controversy of the early 1980s and periodic statements by Japanese political leaders and bureaucrats have implied just the opposite. Finally, there is an element of expediency in this issue in that it gives Japan's neighbors a measure of leverage over the Japanese and gives the Japanese themselves another convenient policy constraint to hide behind when it serves their purposes to do so.

But like the domestic "myths," regional opposition to Japanese military expansion, either qualitative, numerical or operational, does not place absolute limits on Japanese security policy. As long as Japanese rearmament has been effectively rationalized, it has largely been accepted, if not always encouraged, by other regional actors (particularly those generally aligned with the U.S. against the Soviets). In fact, regional opposition to expanded Japanese military roles appears to be shifting toward a more

ambivalent attitude. Thus, while some Chinese and ASEAN leaders are viewing Japan more warily in the emerging post-Cold War world, others recognize the inevitability and necessity of a larger Japanese role.¹¹⁶ As an Indonesian diplomat said of Japan's recent reluctance to participate in the multinational force in Saudi Arabia because, among other reasons, "it would arouse anxiety among [its] neighbors:"

Sure, we remember the militarism and imperialism...in the 30s and 40s. But, this is the 90s, and the threat is Saddam and his ilk. The Japanese are using our hang-ups as a cover for their own.¹¹⁷

Clearly, regional "hang-ups" are situational, not unconditional.

These "myths" constraining Japanese security strategy do not themselves pose absolute limits on Japan's policy options. Instead, the Japanese government has generally elected to accept rather than challenge them. This has served a number of purposes. It has placed limits on the resources committed to military forces as well as the risks inherent in a more assertive defense policy. It has allowed Japan to concentrate on economic objectives while "the United States...has insulated Japan from the political, psychological, and economic cost and responsibilities associated with an orthodox national role in global defense arrangements."¹¹⁸ Finally, it has afforded the Japanese a significant measure of flexibility, allowing them to gradually press and expand the limits imposed by the

constraints when it is in their interest to do so and to hide behind those limits to avoid action when that serves their interests.

As long as Japan chooses to accept these constraints rather than challenge them it will be required to establish and maintain a set of legitimizing assumptions to rationalize and gain acceptability for its defense policies. Over the past decade the assumptions have centered on Tokyo's focus on the Soviet threat, its close alignment with the U.S., and its continued emphasis on the narrowly defensive mission of its military forces. These assumptions have allowed Japan, under pressure from the U.S. or its own defense hawks, to press the limits of its policy constraints when necessary without appearing to directly challenge them. This exercise in ambiguity has largely succeeded and is likely to persist. However, the strategic foundation of the current set of legitimizing assumptions is being undermined by the emerging changes in the security environment in East Asia. In particular, Tokyo will find it difficult to rationalize continued rearmament and wider defense missions in the face of a diminishing Soviet threat (which the Japanese government is only reluctantly, and in some cases barely, acknowledging¹¹⁹) as well as the drawdown in the U.S. military presence.

Without a new set of acceptable assumptions, Tokyo is likely to find it difficult, both domestically and

regionally, to press the constraints on its security policies. Indeed, in this period of international uncertainty Japan seems even more likely to fall back on the low risk foreign policy approach it has successfully pursued for the past 40 years. Thus, expectations of a larger security role for Japan as a means of reducing the American burden, while not impossible, may be no more realistic in the near-term than are the chances that Tokyo will move decisively to eliminate its non-tariff trade barriers and restructure its economy to encourage foreign competition and investment. It is not inconceivable that Japan will change, indeed it is likely; however, largely as a result of the policy constraints described above, the Japanese will change at their own pace not at America's. It is also possible that Japan will see its post-Cold War interests better served by a reiteration of its comprehensive security approach rather than continued reliance on close alignment with the United States. In any case, it seems unlikely that Japanese initiated changes will be either decisive enough or in the direction required to reconcile conflicting U.S. views of Japan. Only modifications to American policy promise to accomplish this.

B. CONFLICTING AMERICAN VIEWS OF JAPAN

Over the past two decades there have developed intensifying contradictions between American views of Japan's role

in U.S. national security strategy. One view holds the U.S.-Japan relationship to be a key element of U.S. strategy. This is the official U.S. government view and is represented in the following excerpt from the March 1990 National Security Strategy of the United States:

Our alliance with Japan remains a centerpiece of our security policy and an important anchor of stability. Japan's importance is now global. Our relationship is one of the most important bilateral relationships in the world and it is in our strategic interest to preserve it.¹²⁰

Contrary to this official view, elements of the U.S. government and particularly the Congress, as well as a sizeable portion of the American public, consider Japan to be an appropriate object rather than element of U.S. strategy. Indeed:

The American public's concern over the economic might of Japan appears to have risen sharply, heightening sentiment for limits on foreign investments, as Americans worry more about Japanese economic power than about Soviet military power.¹²¹

This contrary view is lately following two distinct lines of reasoning. The primary perception, highlighted by a number of public opinion polls over the past two years, emphasizes the Japanese economic threat to the U.S. The other, more subtly expressed view, emphasizes the potential threat to East Asian stability of resurgent, more independent Japanese military power.

1. Japan as an Element of U.S. Strategy

In the late 1940s/early 1950s, the U.S.-Japan security alliance became the "anchor" of U.S. containment

policy in the Asia-Pacific region. It has continued to be viewed as a key element of American national security strategy. In fact, Japan's role in U.S. strategy has evolved over the past twenty years from one of regional ally to a larger role of global strategic partner. Both roles have possessed military as well as economic elements and have emphasized the sharing of burdens in the pursuit of "largely compatible global and regional interests"¹²² and goals. This is consistent with the broad objectives of U.S. strategy which include the goal to "establish a more balanced partnership with our allies and a greater sharing of global leadership and responsibilities."¹²³

During the early 1980s the U.S. expanded the focus of the U.S.-Japan security alliance to encompass specific responsibility sharing measures rather than mere cost sharing. Accordingly, American policy was aimed "to avoid proposing specific programs and to concentrate on achieving an agreed division of labor between the two countries in terms of roles and missions."¹²⁴ This shift in policy followed Japan's 1981 commitment to defend its sea lanes out to 1000 nautical miles and to expand its air defense capability. That commitment, backed by Prime Minister Nakasone's vocal support, resulted in markedly less public criticism of Japan's defense efforts by U.S. officials.¹²⁵ With the exception of some Congressional critics, this approach continues.

The value of Japanese defense cooperation has been seen in strategic as well as burden-sharing terms. In 1985, then Commander in Chief Pacific Fleet, Admiral Foley wrote:

It is, in fact, essential for the successful defense of Japan and for success of our larger strategy in the North-west Pacific--which includes, obviously the survival of South Korea--that Japan play an active role as an ally in the event of any conflict. It is, nevertheless, possible that a future government in Tokyo would elect to opt out of a war. That choice would eject us from East Asia.¹²⁶

While acknowledging the reduced Soviet military threat over the past two years, policy documents and officials have recently referred to the U.S.-Japan relationship as "the critical linchpin of our Asian security strategy."¹²⁷

Concrete examples of the continuing and, in some cases, growing benefits of the American-Japanese defense relationship include "the geostrategic location of [U.S.] bases [in Japan] and the cost effectiveness of our presence compared to anywhere else."¹²⁸ Tokyo is already paying "35 to 40 percent of the total cost associated with the U.S. presence in Japan."¹²⁹ Within the framework of the Guidelines on U.S.-Japan Defense Cooperation of 1978, Japanese and American forces have expanded joint exercises, planning, and interoperability. While the actual frequency of joint exercises was just recently reduced as a cost savings measure, Japan-U.S. security consultations have been upgraded to the ministerial level under a December 1990 agreement.¹³⁰ Finally, since 1983 Japan has, under a formal arrangement,

been willing to transfer military technology to the U.S.-- the only exception to Tokyo's arms export ban. This mechanism paved the way for FSX aircraft codevelopment and for Japanese participation in SDI research and development.

Possibly of even greater long-term significance, the U.S. has in recent years made suggestions that Japan "do more to help improve stability around the Pacific rim" to include increased "Japanese contributions to assist economic development, support peacekeeping, and combat drug trafficking."¹³¹ Such statements imply tacit support for some form of benign regional politico-military role for Japan, in cooperation with the U.S., to complement its current economic preeminence. A less subtle proposal for an expanded concept of Japan's defense contribution to U.S. global security strategy was evident in President Bush's fall 1990 request that Japan provide mine warfare and logistic assets in support of allied forces in the Persian Gulf.¹³²

The U.S.-Japan security relationship has grown to include significant economic and political dimensions as well. According to Assistant Secretary of State Richard Solomon:

The security treaty is the anchor of our engagement in the [Asia-Pacific] region. It forms the basis of the U.S.-Japan partnership, a partnership which has grown to global proportions. The world's two largest economies--in terms of trade, aid, investment, and technology--are the engine of global growth and East Asia's economic dynamism.¹³³

As in the case of military cooperation, the U.S.-Japan political and economic partnership has been aimed at global cost and responsibility sharing. In recent years the U.S. has pressed Japan to increase both the quantity and quality of its official development assistance (ODA). Japan is now, in fact, the world's largest dispenser of such aid.¹³⁴ The U.S. has also encouraged a larger Japanese role in and financial contribution to key international economic organizations such as the World Bank, the International Monetary Fund and the Asian Development Bank.

In summary, despite acknowledged economic and burden sharing imbalances which have persistently strained American-Japanese relations, the U.S. government's official stance holds that "our strategic anchor in Asia has been the U.S.-Japan security relationship."¹³⁵ As a result, "successful management of the tensions in the U.S.-Japan relationship is essential to sustaining a secure and prosperous Asia-Pacific region."¹³⁶ Clearly, U.S. policy has been to place the larger strategic value of American-Japanese relations above what are perceived to be narrower economic interests. Although such interests have not been ignored, the U.S. government has chosen to pursue a gradual, incremental approach to resolve divisive issues while stressing the importance of the overall relationship and its intention to preserve that relationship above all else. Indeed, President Bush recently "committed [himself]

to see that [Japan] bashing doesn't go forward and that the relationship goes on."¹³⁷

2. Japan as an Object of U.S. Strategy

In the post-occupation period the primary, if not singular, focus of problems in the U.S.-Japan relationship has directly or indirectly related to economic imbalances. From early fears of the inundation of American markets by cheap Japanese products to more recent concerns over both the domination of the U.S. economy by massive Japanese capital inflows as well as its growing dependence on Japanese technology, many observers have come to view Japanese trade, macroeconomic and industrial policies to be antithetical to American economic interests. These critics are further frustrated by the willingness of the U.S. government to pursue only piecemeal and often ineffective solutions to the problems, and to downplay them in favor of broader strategic interests. It is particularly ironic, they argue, that the U.S. continues to bear the main burden for the defense of Japan's global interests, even as the costs of that commitment have come to exceed the economic benefits derived for the U.S. As one critic has bluntly commented: "this is surely the first time in history that a territory in the process of being colonized has actually paid for the right to defend the colonizer."¹³⁸

The critics of Japanese "neomercantilist" behavior and the ineffective U.S. response to them include a vocal

group of academics led by Chalmers Johnson, policy analysts including former trade negotiator Clyde Prestowitz, journalists such as James Fallows, a number of Congressmen led by Representative Richard Gephardt, as well as some, more circumspect, elements of the U.S. bureaucracy. Increasingly the American public has come to share the view of the critics. Especially over the past two years, as concerns of a Soviet military threat to the U.S. has declined, the perception of an economic threat from Japan has grown.

While a majority of Americans still hold "generally friendly" feelings toward Japan, a June 1990 poll found that 64 percent of the U.S. public believed investment by Japan in the United States posed a threat to American economic independence. In the same poll 57 percent of respondents considered Japan to be America's strongest competitor and by a margin of 58 to 26 percent viewed "Japan as a greater threat to American security than the military power of the Soviet Union."¹³⁹ At least two other opinion polls over the year prior to June 1990 produced similar results in the assessment of the relative threat posed by Japan and the USSR.¹⁴⁰ Clearly, the end of the Cold War in Europe, Soviet perestroika and related developments, as opposed to some sudden surge in American concern about Japan, may account for much of the relative decline in perceptions of a Soviet threat. Whatever the reason, Japan's economic rivalry with

the United States has, in the last two years, assumed a more dominant position in the American public's view of the threats to U.S. security.

The critics of U.S. policy point to a number of areas in which the American economy is directly or indirectly threatened by Japan. They cite Japanese trade and investment barriers, Japan's government/industry partnership which targets technologies and products for penetration and eventual dominance of foreign markets, and Tokyo's macroeconomic policies which discourage consumption and promote high savings rates. All of these, they assert, have contributed to 25 years of chronic U.S. trade deficits with Japan as well as marked imbalances in foreign direct investment (FDI) in Japanese favor. The critics acknowledge that America's domestic economic and social problems contribute to these imbalances as well. However, they attribute them, at least in part, to an American budget deficit which has been exacerbated by the continued commitment of resources toward defending allies, such as Japan, who are more than capable of defending themselves.

In general, these critics argue, international security responsibilities and costs should be shifted to allies, or where possible in the post-Cold War environment, simply abandoned. According to one prominent critic of American policy "peace in Europe means that the 60 percent of the U.S. defense budget spent to defend some of the

richest people on earth could be reinvested to shore up the foundation of America's industrial economy." In Asia, "this means that instead of the United States continuing to offer Japan a free ride on most political and security issues, it must try to shift as many costs as possible to Japan...and force it to play a role more like that of a normal nation-state."¹⁴¹ Or, as one American Congressman has bluntly put it, the U.S. should no longer permit Japan to hide "behind the world's most flexible constitution, which conveniently allows the Japanese to let others fight and pay for world order, world peace and the recognition of basic human rights."¹⁴²

Rather than downplaying the economic relationship in the interest of strategic goals, "...the United States must produce a clearly defined, narrowly focused, minutely monitored policy toward Japan that puts economic objectives first," while "the American security relationship with Japan should be downgraded to a supportive and secondary role."¹⁴³ Indeed, many critics are skeptical of Japan's real contribution to American interests in general arguing that "the Japanese system is significantly different from Western-style democratic capitalism,"¹⁴⁴ pursues different goals and is unlikely to genuinely change in the immediate future, if ever. As a result, Japan should be viewed not as a critical strategic partner but first and foremost as an economic rival which contributes to U.S. goals only when

pressured to do so or when it appears to serve their narrower economic aims. In taking this view, they urge the U.S. government to pursue domestic and international economic policies which will restore American global competitiveness and arrest its relative economic decline. This approach is sometimes referred to as "economic nationalism"¹⁴⁵ and in addition to shifting costs to the Japanese, might include such things as a national industrial policy, protection for U.S. industries threatened by unfair Japanese competition, and FDI restrictions.

In addition to the economic reasons for viewing Japan primarily as an object of U.S. strategy rather than a key element of it, there is also the military rationale. Although always an underlying justification for the U.S.-Japan security relationship, the requirement to assuage regional fears of resurgent Japanese military power has taken on new relevance as the perceptions of a Soviet threat to Asia diminishes and the potential for accelerated U.S. withdrawal increases. Possibly not since the beginning of Japan's rearmament, early in the Cold War period, has regional concern been so acute. According to one observer:

Recent defence cuts by the Soviet Union and the United States in Asia have intensified concerns in the region that Japan will extend its military reach to protect vital sea lanes and sources of supply for the Japanese economy.¹⁴⁶

As a result, one of the increasingly expressed rationales for a continued American military presence in the

Asia-Pacific region is to serve as a "cap in the bottle"¹⁴⁷ of potential Japanese military power.

In summary, while the critics of U.S. policy toward Japan do not necessarily reject some Japanese role as an element of American strategy, they generally argue that "Japan's one-sided trading will make the U.S.-Japanese partnership impossible to sustain--unless we impose limits on its economy."¹⁴⁸ Without dismissing the need for American economic reforms, these critics assert that the threat posed by Japan's "neomercantilist" industrial/trade strategy to both the domestic U.S. economy and the international free trade regime must be "contained."¹⁴⁹ Indeed, this concept of containing Japan is reflected in the recently more open discussion of an American role in checking the growth of Japanese military power. This raises the obvious question of the feasibility of maintaining an American-Japanese relationship in which Japan is viewed as a critical element of U.S. strategy and a major object of it as well. A question which is especially relevant in a period of fundamental change in the international security environment, in which the postwar strategic assumptions underlying the U.S.-Japan relationship are becoming increasingly anachronistic.

C. IMPLICATIONS FOR THE UNITED STATES

In the absence of a serious Soviet threat and with limited prospects for significant Japanese burden sharing, the overriding importance of the U.S.-Japan alliance to American security strategy appears to be waning with the Cold War. There may, in fact, be other strategic rationales for a continuation of the current security, rather than economic, emphasis in U.S.-Japan relations. However, there are also compelling arguments for a reversal of priorities which place economic considerations first.

One thing seems clear--the intensifying contradiction between the view of Japan as a strategic partner of the U.S. (a unifying force) and the perception of Japan as an economic threat to America (a divisive force) has introduced significant potential for instability into the U.S.-Japan relationship. A continuation of the current unstable and imbalanced relationship may be untenable under the changing international conditions described above. Any resulting breakdown in U.S.-Japanese relations could, at a minimum, lead to massive global economic dislocations caused by the collapse of the international free trade regime. At worst, as suggested in the provocative new book The Coming War with Japan, it could lead to hostile confrontation, open political and economic conflict, and even, ultimately, to war. While the latter suggestion seems absurd, "anyone who in

1980 dared to predict the collapse of communism would [also] have been ridiculed."¹⁵⁰

Rather than continuing to rely on a gradualist approach aimed at resolving divisive issues in U.S.-Japanese relations, much of it based on the assumption that Japan will change in response to persistent American pressure, a fundamental reassessment of the relative importance of security and economic factors in U.S.-Japan relations may now be appropriate, even vital considering the implications of current trends. A critical element of such an assessment is an examination of the rationales for a continuing U.S.-Japan strategic emphasis as well as those favoring recognition of the mounting importance of economic rivalry in American relations with Japan. Reestablishing relative priorities which are more consistent with U.S. interests in a post-Cold War environment may provide the basis for a more realistic view of Japan's role in American national security policy.

IV. IMPERATIVES FOR A CONTINUING STRATEGIC EMPHASIS IN U.S.-JAPANESE RELATIONS

A number of rationales can be offered for the continuing emphasis by American policy-makers on the strategic importance of the U.S.-Japan relationship, even in the absence of a significant Soviet threat to Japan or East Asia generally. Among the main rationales are the continued strategic-military importance of Japan, the strategic partnership or responsibility sharing concept, the reality of economic interdependence, and the necessity to stress mutual strategic interests as a means of overcoming centrifugal forces in the relationship. An assessment of each rationale is required to evaluate its credibility as a justification for the view that the U.S.-Japan strategic relationship remains a paramount element of American strategy and national interests in the post-Cold War international environment.

A. THE STRATEGIC-MILITARY RATIONALE

1. Japan's Role in Post-Cold War American Strategy

As the Cold War draws to a close in East Asia, albeit more slowly and less dramatically than in Europe, the U.S. is responding by shifting the focus of its Asia-Pacific defense strategy from that of Soviet containment to one of "regional balancer, honest broker and ultimate security

guarantor."¹⁵¹ According to the Defense Department's East Asian Strategy Initiative, the following major factors underlie this shift in strategic focus of the American regional military role:

1. "the Soviet Union, while still the major threat in Asia, no longer is perceived as the serious menace it was during the 1970's and 1980's;"
2. in an area of such diversity and complexity, with little consensus as to the sources of instability, a regional collective security framework is unlikely and any "diminution of U.S. commitment to regional stability, whether perceived or real, would create a security vacuum that other major players would be tempted or compelled to fill;"
3. the American "balancing wheel" role has been "a traditional aspect of our military presence in the region...[and] will assume greater relative importance to stability...as a new global order takes shape" over the next decade;
4. the U.S. "military presence sets the stage for our economic involvement in this region" which "has surpassed Europe as America's largest trading partner;" and
5. "by concentrating on the stabilizing aspects of our regional presence, we [the United States] not only legitimize that presence, but also provide a rationale for increased cost sharing contributions to regional security by our friends/allies [which], in turn, helps temper traditional suspicion and friction between regional parties."¹⁵²

As the above reasoning suggests, the decline of the Soviet threat does not eliminate the necessity for a continued American forward military presence in East Asia. Significant U.S. interests in the area persist, including America's largest interregional trade relationship as well as its commitment to preserve and promote the world's most

successful bloc of non-Western, free market-oriented developing states.¹⁵³ The benign hegemony provided by the post-war U.S. military presence, which "the great majority of Pacific nations [still] openly welcome,"¹⁵⁴ is seen to be a key factor in providing the stability necessary for the region's remarkable economic progress to date as well as its continued success in the future.

Thus, while some regional drawdown of U.S. forces is considered feasible in the post-Cold War security environment, the Asia-Pacific area, already considered an "economy of force theater,"¹⁵⁵ will still require a forward American military presence. Significantly, the U.S.-Japan relationship is described as the "critical linchpin" of this evolving strategy.¹⁵⁶ While this characterization is not new, it reflects a perception of Japan's continuing strategic importance to the U.S. despite fundamental changes in global security and economic conditions.

There appear to be three main reasons for the persistence of this emphatic linkage of U.S. security interests to its strategic relationship with Japan. First, the forward U.S. military presence in East Asia is increasingly dependent on Japan due to "the geostrategic location of [American] bases [in Japan] and the cost effectiveness of our presence there compared to anywhere else."¹⁵⁷ This is particularly true in the face of the planned drawdown of U.S. forces in the Philippines and South

Korea. Second, American pressure on Japan to increase its military burden sharing "could prove worrisome to regional nations, especially if they perceive Japan is acting independent of the U.S.-Japan security relationship."¹⁵⁸ Finally, the U.S.-Japan security relationship is a means of "discouraging any destabilizing development of a [Japanese] power projection capability,"¹⁵⁹ a sophisticated and diplomatic version of Major General Stackpole's assertion that the U.S. must be the watchdog of Japanese military resurgence.¹⁶⁰

An unstated fourth reason for the continued emphasis on U.S.-Japan security ties may be the reality of American dependence on Japanese-made high tech components of U.S. weapons systems. This latter point may be a legitimate argument for assigning Japan a vital place among U.S. security interests, worthy of a continued defense commitment, but does not clearly require that Japan be designated as the "critical linchpin of our Asian security strategy."¹⁶¹ It will therefore be examined in more detail as an element of a separate strategic rationale.

There are a number of troubling questions implicit in Japan's role in the emerging U.S. strategy. Each can best be examined in the context of preserving the pre-dominant strategic relationship presented above.

2. Implications of U.S. Dependence on Japan

The first troubling issue relates to the implications of growing American dependence on Japanese bases and host-nation support. As long as the United States accepts the necessity of a continued forward military strategy in the Asia-Pacific area, based either on the regional balancer concept or as a hedge against the latent Soviet threat, the availability of military bases in the region will greatly facilitate American presence and operations. Indeed, one can reasonably argue that any credible U.S. commitment to assist in the defense of South Korea from a still substantial Northern threat depends on the availability of secure forward bases in the region.

The importance of U.S. bases in Japan will therefore persist, if not grow as a consequence of the planned draw-down of U.S. forces and facilities in the Philippines and South Korea. While some drawdown will occur in Japan as well, it is currently envisioned that "U.S. deterrent capabilities in Japan--a homeported aircraft carrier, strategic lift aircraft, and postured Air Force strike assets--will remain to fulfill our regional and global missions and to honor our treaty commitments" over the long-term.¹⁶² Should the U.S. grow increasingly dependent on Japanese bases, especially if coupled with larger host-nation support from Tokyo (currently 40 percent of American costs, increasing to

50 percent by 1995¹⁶³), it may correspondingly increase Japanese ability to influence American policy.

Such a perception, reinforced by the "critical linchpin" characterization, may, at best, contaminate the emerging U.S. role as a regional "honest broker." Few countries in the Asia-Pacific area have interests as large as Japan's. Indeed, Japanese economic activity--trade, investment, offshore manufacturing, aid and loans--already dominate much of the region. For the U.S. to tie its Asia-Pacific strategy so closely to Japan implies a significant measure of support for Japanese economic expansion (a view that the Japanese themselves have not discouraged¹⁶⁴). In view of the growing regional concern toward Japan's economic domination, and potential military expansion in its wake, overemphasis on close American security ties with and/or appearances of dependence on Japan may foster a perception that the U.S. is promoting and protecting Japanese interests rather than playing a truly "honest broker" role.

A worst case result of U.S. overdependence on Japanese bases and host-nation support would be Tokyo's insistence on a say in the employment of American military forces forward deployed in or supported from Japan. If these units operated from Japan solely or primarily in defense of that nation, heavy U.S. dependence on Japanese support would be wholly appropriate. The reality, however,

is that American forces in Japan project U.S. power and influence throughout Asia and are not primarily in place to defend Japan.¹⁶⁵ Because they operate in a region that stretches from the Bering Straits to the Bab el Mandeb there is a strong likelihood that these forces will in the future, as they have in the past, become involved in operations which the Japanese do not fully support or which they out-right object to. If in a highly dependent position via-a-vis Japan, the U.S. may be less able to ignore Japanese objections and Tokyo may be more willing to assert them.

Limiting its freedom of action is not a condition the U.S. can welcome in a region of such diversity, complexity and sheer geographic scope. As former Commander, Seventh Fleet Vice Admiral Henry Mauz recently warned, encouraging Tokyo to pay a very large share of the costs of American forces in Japan "may in the long run have some impact on our flexibility. If Japan...doesn't agree with our course of action which is not inconceivable, there may be some inclination to suggest that the force Japan is paying for ought to stay closer to Japan."¹⁶⁶ A regional balancer/honest broker role implies the need for maximum freedom to maneuver. Overdependence on a single regional actor does not appear to foster such a position. Past doubts about the reliability of Tokyo's support for the U.S. in a global conflict with the USSR¹⁶⁷ can only produce more

serious concerns as to Japan's willingness to support post-Cold War American involvement in regional conflicts of far more ambiguous interest to the Japanese.

3. Prospects/Implications for Burden Sharing

A second troubling issue relates to Japan's future military role. Specifically, is it realistic to expect Japan meaningfully to increase its military burden sharing in light of those underlying constraints on Japanese security policy discussed earlier, and is it still in American interests to encourage them to do so? Recent events such as Japan's reluctance to commit significant financial resources much less a token military presence to the international coalition in the Persian Gulf suggests that the limits to American concepts of meaningful Japanese defense burden sharing remain substantial. For the U.S. to continue tying itself closely to Japan in expectation of its greater assumption of the costs and responsibilities of global or even regional security may be little more than a policy of "wishful thinking."

Under current U.S. policy for military burden sharing, Japan is called upon (and has agreed to) "to increase its territorial defense capabilities and enhance its ability to defend its sea lanes out to a distance of 1,000 nautical miles, while at the same time [the U.S. is] discouraging any destabilizing development of a power projection capability."¹⁶⁸ Specifically, this is to be

accomplished over the next three to five years through improvements to "the quality, but not necessarily quantity, of its force structure through the procurement of advanced weapons systems, improved sustainability, and improved command and control and logistic infrastructure."¹⁶⁹

Some analysts argue that Tokyo remains far short of its sealane defense goal ten years after committing itself to it. According to a recent letter to the State Department from a group of 70 Congressmen: "Defense experts on both sides of the Pacific agree that comprehensive coverage of the vast area Japan has agreed to defend requires between 12 to 14 AWACS planes and at least 20 tankers."¹⁷⁰ Japan currently has neither aircraft in its inventory and is currently programmed to buy only four AWACS over the next five years.

Such examples tend to reinforce the assertions of some critics that Japan's burden sharing agreements with the U.S. seek only to deflect criticism and are frequently implemented half-heartedly. Indeed, as long as the U.S. continues to act as the ultimate guarantor of Japanese security, there is little reason to believe that Tokyo will readily assume additional military burdens in the face of powerful domestic legal/constitutional and political constraints as well as strong regional opposition. Certainly, referring to Japan as the "critical linchpin of our Asian security strategy"¹⁷¹ does little to induce them to

challenge the underlying constraints which limit the extent of potential burden sharing. But, even if Tokyo was to continue increasing defense expenditures (i.e., more substantial quantitative burden sharing), or was to assume a wider, even more assertive regional military role in cooperation with the U.S. (i.e., more substantial qualitative burden sharing), American interests might not be clearly served as the U.S. security role in Asia changes.

Meaningful quantitative burden sharing, by substantially increasing Japanese defense expenditures, would probably not place the significant drag on the Japanese economy of the 1990s that some Americans once hoped for--it could however markedly increase the size of what is already in dollar terms the world's third largest military budget.¹⁷² Such a development, particularly if lacking an acceptable strategic rationale, would not be welcomed in the region nor would the arms competition it could provoke serve U.S. interests. Additionally, it is unclear that increased military equipment procurement by Japan would significantly promote American commercial interests by reducing the U.S.-Japan trade deficit. It is likely, however, that the political debate over U.S. military technology flows to Japan would increase and that Japanese defense contractors would be strengthened--making them formidable potential competitors to U.S. companies should Tokyo lift its ban on weapons exports.

Meaningful qualitative burden sharing, by increasing Japan's defense responsibilities, also faces significant limits. As described above, the Japanese have shown little initiative to assume greater responsibilities and, where they have done so under American pressure, have been slow to acquire the capability to realistically exercise them. Furthermore, there is little regional consensus regarding Japan's appropriate security role, even in conjunction with the U.S. The Chinese, for instance, "seem much more suspicious than Americans about Japanese ambitions in the region, and sometimes appear to regard Americans as a bit naive about Tokyo."¹⁷³ Likewise, "Seoul's 1990 white paper of defense labeled the build-up [of Japanese military forces] a 'negative factor' in regard to South Korea's national security for the first time" ever.¹⁷⁴ Finally, and possibly the most troubling question generated by any larger Japanese responsibilities in support of U.S. strategy, relates to the emerging perception of an American "watchdog" role.

4. Implications of an American "Watchdog" Role

The third significant concern is the long-term credibility of a strategy in which the U.S. is perceived by some to play the role as both Japan's "watchdog" and her "critical" security partner. If these irreconcilable perceptions of Japan's place in U.S. strategy become widely accepted, it may only serve to exacerbate underlying

tensions in the relationship. Indeed, according to co-authors Alan Romberg of the Council for Foreign Relations and former Chairman of the Joint Chiefs of Staff Admiral William Crowe: "The 'cap in the bottle' imagery invoked by a senior American military officer [General Stackpole] in Japan (suggesting the U.S. presence in Japan was to contain that nation's military ambition) was destructive of confidence."¹⁷⁵ They do not, however, completely dismiss its legitimacy:

...the U.S.-Japan alliance does, in fact, ease the concerns of Japanese themselves and other Asians about the future of Asian security. Above all, it helps dispel the impression that the United States might withdraw from Asia, leaving a vacuum that Japan might fill.

Moreover, by remaining so obviously engaged through the alliance, the United States not only enhances its own efforts but also facilitates an effective Japanese economic and political role throughout the region. Though Japan's trade and especially its investment is generally welcomed, there is already unease over Tokyo's potential dominance in the region. Even Japan's economic involvement would become more problematic if Washington were seen to be leaving the field to Tokyo.

U.S. withdrawal would also raise serious concern over Japan's possible remilitarization.¹⁷⁶

For many Americans it will be disconcerting to perceive that the U.S. must maintain a military presence in East Asia to check the Japanese military potential that the U.S. has itself played so large a role in creating, and still encourages, but now seems to derive so little benefit from. Equally troubling is the Japanese' own suggestion, reiterated by Romberg and Crowe above, that their continued

expansion in Asia including "spreading trade, investments and economic aid...are actually made possible by an American military presence in Japan that effectively blocks any chance of Japan's rearming,"¹⁷⁷ an assertion which seems to place U.S. military strategy at odds with American economic interests. One cannot help but wonder how long the U.S. public will tolerate a military strategy which furthers the economic goals of our primary international competitor, defends Japan from its own fears of latent militarism rather than any specific external adversary, and serves to protect U.S. allies from each other rather than from a common threat.

Nor is it clear how long the Japanese public will continue to "feel good about paying for a watchdog that watches them."¹⁷⁸ Indeed, a recent Japanese Foreign Ministry funded study warns of the potential for "anti-U.S. sentiment stemming from Japanese nationalism resulting from trade friction and the receding Soviet threat."¹⁷⁹ Such rising Japanese nationalism could be matched by isolationist sentiments in the U.S. if the contradictions in American interest noted above are not resolved.

Some would argue that these issues present, at worst, a perception management problem and that the idea of an American "watchdog" role is an unnecessary absurdity. However, the DOD has itself lent legitimacy to such a perception by suggesting that "increases in Japanese

military strength undertaken to compensate for declining U.S. capabilities in the region could prove worrisome to regional nations, especially if they perceive Japan is acting independent of the U.S.-Japan security relationship."¹⁸⁰ One cannot overlook the possibility that some conflicts in American and Japanese interests may be irreconcilable. Though the result may not be, as one set of authors has recently suggested, a coming "war between the United States and Japan,"¹⁸¹ there is clearly some cause for questioning the continued desirability of American pressure on Japan to increase its defense burden sharing. If the U.S. military is to play any form of subtle "watchdog" role vis-a-vis Japan, there can be no logical rationale for encouraging the object of this effort to continue enhancing its military capability or expanding its regional role.

5. Summary Assessment

While the U.S.-Japan security relationship remains important to the United States, especially with regard to base access, its central emphasis in the emerging American regional balancer strategy rests on a number of questionable assumptions. Without the sort of threat to Japan which once led U.S. planners to equate its loss to a shift in the global balance of power, U.S. security interests do not seem to justify Japan's status as the "critical linchpin of our Asian security strategy"¹⁸² for the following specific reasons:

First, real or perceived overdependence on Japan, or overstatement of its military importance to U.S. strategy, may not serve American interests in the region (if this is the price of continued base access in Japan, it may be too high).

Second, continued encouragement of Japanese military burden sharing may prove elusive as it is based on essentially incompatible conditions: to assuage regional concerns Japanese burden sharing must be closely tied to the U.S.-Japan alliance; however, as long as Japan's security is guaranteed by the United States' defense commitment, Tokyo has little incentive to risk challenging the underlying constraints which limit its security posture and roles. At most Japan need only make marginal concessions to satisfy American pressure--pressure which may itself be weakened by the "critical linchpin" rhetoric (undoubtedly the Japanese assume there are limits to the extent or consequences of any pressure the Americans would exert on such a "vital" ally).

Third, ironically, reducing the U.S. defense commitment to Japan, which might be necessary to produce meaningful burden sharing, could also create a more assertive, militarily independent Japanese security posture that "could foster arms races and instability throughout the region."¹⁸³ In an era of declining defense budgets the U.S. can ill afford to promote such conditions in a key region already

described as an "economy of force theater" for the United States military.

Fourth, the assumption that emphatic official rhetoric as to Japan's strategic-military criticality to the U.S. will keep divisive economic issues in check fails to consider the potential nationalistic backlash from both the American and Japanese publics created by overemphasis on the importance of the U.S.-Japan military alliance--especially when both publics increasingly believe its importance is diminishing and that economic competition is assuming greater significance.

Fifth, even what may be Japan's most important post-Cold War military role in U.S. strategy, the value of American bases in Japan to the continued defense of South Korea, does not justify the "critical linchpin" characterization for two reasons. First, Japan's support for American military operations in a second Korean conflict would by no means be assured (see Admiral Foley's statement quoted on page 61). Second, any assertion that Japan is the "critical linchpin" of U.S. Asian strategy because of its importance to the defense of Korea could only be based on the assumption that the defense of Korea is the primary goal of U.S. strategy in the Pacific. Such an assumption is not reflected in U.S. policy statements nor is it supported by the planned drawdown of American forces in Korea.

B. THE STRATEGIC PARTNERSHIP RATIONALE

1. The Concept

State Department officials frequently refer to a global U.S.-Japan partnership.¹⁸⁴ While the "Treaty of Mutual Cooperation and Security underpins overall U.S.-Japan relations,"¹⁸⁵ the strategic partnership rationale goes well beyond security cooperation or military burden sharing. Instead, it focuses on economic and political responsibility sharing as well.

One key concept underlying the responsibility sharing rationale is the idea of a "division of labor." It is based on the premise that the costs of global leadership can no longer be borne by the United States alone. Under this concept, which is not new, "some U.S. government sources say that an effective U.S.-Japanese partnership requires the military component to come from America, while Japan shoulders a large part of the economic aid burden that the U.S. finds increasingly onerous."¹⁸⁶ Some have referred to this as the "Santa Claus and the Cop" arrangement.¹⁸⁷

Another key concept is the notion that Japan must "internationalize" its world view and assume "a greater international role commensurate with its economic strength."¹⁸⁸ As early as the late 1970s U.S. officials were calling on Japan "to define a wider vision of its role in the world--in Asia and beyond."¹⁸⁹ According to this view, "a commitment of Japan's political and economic

capabilities to the achievement of major global goals is essential to a strong U.S.-Japanese relationship."¹⁹⁰

A third aspect of this concept, prevalent in some academic circles, relates to the vision of some form of a regional, if not global, "Pax Nipponica" based on Japan's growing economic and financial leverage.¹⁹¹ In a world in which the importance of economic power may be surpassing that of military strength this concept seems all the more relevant. Some dismiss the "Japanese potential for hegemonic dominance [because it] is limited both by internal shortcomings and external factors,"¹⁹² while others argue that the U.S. must engage Japan in a strategic partnership to ensure that Tokyo will "continue to play a 'supporter role' in international politics, whereby it helps to prop up American hegemony."¹⁹³

One writer even asserts that the concept of constructively engaging Japan in support of U.S. goals is a subtle form of containment and is not new. He describes "the strategy of 'double containment,' in which Germany and Japan were embraced as junior partners in the effort to contain the Soviet Union; at the same time they were firmly anchored in the U.S.-centered alliance system by a web of security, political and economic ties."¹⁹⁴ In the face of Tokyo's increasing global economic influence, there are few advocates outside Japan of a more assertive Japanese government acting independent of the U.S.-Japan alliance.

2. The Economic Aid Partnership

Of the shortcomings evident in the practical application of the strategic partnership concept, foremost may be the valid concern that growing Japanese ODA, now the world's largest, while contributing to economic development and political stability, "consolidates [Japan's]...economic dominance in the process."¹⁹⁵ This is particularly true in regions in which Japan already has major economic interests such as Southeast Asia. The governments of that region are particularly sensitive to commercial motives behind Japanese ODA, especially the tying of loans and the emphasis on infrastructure projects aimed at complementing Japanese FDI.¹⁹⁶ Even before Japan became the world's largest ODA donor there was concern over the quality of Japanese aid, and this concern persists. As a result, Tokyo's efforts to tie its aid to larger political purposes, even under a strategic partnership concept, may not be able to escape the accusation that its ODA is primarily aimed at furthering Japan's economic objectives.

A number of explanations have been put forth for Japan's failure to develop an aid program which does not appear to be aimed largely at furthering its narrow economic interests. These explanations include: 1) the commercial motive--"aid is perceived as an extension of the notion of Japan, Inc.;"¹⁹⁷ 2) cultural factors--specifically, "that 'charity' is a foreign concept in Japan;"¹⁹⁸ and

3) structural impediments--"divided political and bureaucratic responsibilities for foreign aid has led to fragmented budget processes and a lack of any overall aid planning."¹⁹⁹ While Japan has recently attempted to articulate a clearer, more altruistic vision of its aid objectives, Japanese officials paradoxically assert that Tokyo's growing aid responsibilities justify a continued current account surplus in Japan's favor.²⁰⁰ Clearly, this is not the character of strategic partnership that the U.S. has in mind.

Specific, recent examples of Japanese performance as a strategic aid partner are not particularly encouraging. After Prime Minister Kaifu pledged "nearly \$2 billion in financial aid to support democracy in Eastern Europe" during a January 1990 trip to the region, Japanese government, banking and business leaders were generally critical because they "found it hard to support a program that would bring no tangible benefit to Japan."²⁰¹ Later in 1990 Japan, under U.S. pressure, promised aid to Middle Eastern states hurt by the economic sanctions against Iraq. Tokyo ultimately promised \$2 billion in aid but this assistance "came with strings attached, guaranteeing that the money would not be available for [the recipient's]...immediate cash needs"²⁰² and was not clearly in addition to Japanese aid that had already been committed to the region.²⁰³ Finally, the Japanese government has been least forthcoming among major

industrial countries in extending aid to the Soviet Union and private investment has been constrained by the attitude that "the Soviets were offering little in return for Japan and needed to learn how to do business Japanese-style."²⁰⁴

As this discussion has suggested, Japan's aid policies to date have not been entirely in line with American goals under the strategic partnership concept. Despite increased aid to so-called "front-line states" in the East-West struggle, a concept with decreasing relevance in the post-Cold War world, Tokyo has yet to demonstrate, in consistent practice, a vision of ODA purposes that is shared by the U.S. As a result, in promoting the "division of labor" concept the U.S. faces at least two risks. First, Washington risks further conceding its global economic leadership role and influence to Japan while reinforcing the view that the U.S. is only a military power. Second, there is little guarantee or evidence that Japan will allocate aid in ways that ultimately support U.S. goals or interests. On the contrary, Japanese aid is likely to be used primarily, as it has in the past, to further Japan's economic goals. Admittedly, self-interest guides the distribution of the bulk of American aid as well. It is unrealistic to expect Tokyo to behave any differently or to assume that its interests will be identical with Washington's.

3. The International Political Partnership

In the political arena, there is every reason to believe that Japanese political actions will be entirely in support of Japan's interests, with only peripheral concern for the interests of the U.S. Tokyo has generally conducted a low profile, noncontroversial foreign policy contenting itself to follow the U.S. lead when its interests are served or, when those interests dictate otherwise, to quietly pursue a different line from the U.S., as in the Middle East. Japan has, for instance, sought rapprochement with the USSR far more cautiously than the U.S., pursuing its own interests such as the Northern Territories issue. This was demonstrated by Gorbachev's April 1991 visit to Japan which failed to produce a major thaw in relations due to the inability to resolve the Northern Territories issue or make progress toward a belated treaty of peace. Other policy differences have included Tokyo's effort to normalize relations with North Korea, its eagerness to restore full official economic ties with Beijing soon after the Tiananmen massacre, and its "refusal to play an active role in reviving the stalled GATT talks."²⁰⁵

Such differences are not new nor are there significant signs of change. During the Cold War, Japanese views of the Soviet threat were never as rigid as those of the American government and Japan maintained a small trade relationship with Beijing prior to Sino-American

rapprochement. In the emerging post-Cold War environment, some Japanese are concerned that a U.S. regional balancer role will involve them in "local conflicts, or internal political upheavals in countries like the Philippines or China" that they want no part of.²⁰⁶

Indeed, during the 1990-91 Persian Gulf crisis:

The Japanese public was generally indifferent to the crisis.... To the average Japanese, the crisis was 'a fire across the river'--a problem that was of no direct concern and therefore better left alone.²⁰⁷

Of the Japanese government's own performance throughout the Gulf affair, one leading newspaper, the normally pro-LDP Yomiuri Shimbun, lamented that:

Japan's poor skills in diplomacy surfaced during the seven-month [Persian Gulf] crisis. Underlying the nation's political immaturity was its intellectual inadequacy in tackling the realities of a changing world.²⁰⁸

Two of the U.S.-Japan policy differences noted above, those related to GATT and the Persian Gulf crisis, represent key failures in the test of American-Japanese global partnership as measured by the U.S. government itself. According to Secretary of State Baker:

The current crisis in the Persian Gulf and the fate of the Uruguay Round [of GATT] are benchmark issues that will define the nature of the post-Cold War international system. Frankly, America needs Japan's leadership and active support on both these critical issues, which are tests of how well both our countries are meeting their international responsibilities.²⁰⁹

As one respected international periodical observed during the latter stages of the Gulf crisis:

As an economic superpower...Japan is increasingly looked to by America to pay the bills and maybe one day help keep the peace in the Pacific. That one day now looks more distant than it did. Pay what it may, by its conduct throughout the Gulf episode Japan has shown that it has no conception of what is involved in playing even a modest part as a world power.²¹⁰

Clearly, the U.S.-Japan strategic partnership concept cannot succeed without significant consensus on major international policy issues. Such consensus is unlikely as long as Tokyo displays "a much weaker commitment to fundamental strategic goals that might conflict with narrow national [economic and political] interests than is the case with America's other major allies."²¹¹ Indeed, according to one author, "there exists no sizable number of Japanese intellectuals, comparable to the Atlanticists in Europe, who genuinely believe in internationalist ideals and common purposes...."²¹²

4. Summary Assessment

In summary, the expectation that the form of U.S.-Japanese strategic partnership currently being pursued can be, on balance, mutually supportive and beneficial appears to be based on weak or wishful assumptions. Clearly, it is driven by a desire to shift greater burdens of international costs and responsibilities to Japan. While some forms of cost sharing may be possible, the practical benefits to the U.S. will remain uncertain as long as the two nations lack a common global goals and, most importantly, a shared strategy for pursuing them. Attempting to use the strategic

partnership approach to force Japan to embrace a strategic vision compatible with America's own seems only to reinforce Tokyo's fixation on the centrality of U.S.-Japan relations.²¹³

Indeed, Prime Minister Kaifu in a recent Foreign Policy article entitled "Japan's Vision" asserted that "from Japan's perspective the key element in this joint effort [to create a new world order] is the maintenance of close ties with the United States."²¹⁴ This narrow fixation with bilateralism was evident in Japan's behavior during the Gulf crisis when:

...Japan had a good chance to share responsibility and show cynics in Washington what the vaunted U.S.-Japan 'global partnership' could look like. But Japan failed to understand that the Gulf crisis was about principles and about a new world order, seeing it instead as a bilateral U.S.-Japan problem which required them simply to seek to placate an angry U.S.²¹⁵

Thus, while the "double containment" thesis may retain some validity in rationalizing U.S. policy, a strategic partnership emphasis may not be realistic, necessary or even desirable as a means of keeping Japan engaged in the contemporary international system in a way consistent with American interests. It may in fact be self-defeating as it focuses Tokyo's attention on U.S.-Japan relations at the expense of a larger global view, overstates Japan's strategic relationship with the U.S., and probably encourages Tokyo to be less compromising on economic issues and other bilateral disputes.

C. THE INTERDEPENDENCE RATIONALE

1. The Nature of Interdependence

Variations of the interdependence rationale are used by both proponents and critics of the current U.S.-Japan relationship. Some proponents argue that interdependence is a reality of the current international economic system which leaves the U.S. with little choice but to maintain a close strategic relationship with Japan and other key trade partners. Others view the mutual, interlocking benefits of economic interdependence as the most promising basis for a constructive U.S.-Japan relationship in the future.²¹⁶ Critics, however, emphasize that interdependence really amounts to a loss of U.S. sovereignty created by overdependence on Japan and, according to Chalmers Johnson, reflects a foreign policy approach by some elements in Tokyo "centered on making the Japanese and American economies so interdependent that any attempt to separate them would involve unacceptable damage to both."²¹⁷

In addition to over \$139 billion in annual U.S.-Japan trade,²¹⁸ finance and technology are the major elements of American-Japanese interdependence. While Japan's trade surplus with the U.S., which peaked at about \$50 billion during the mid-1980s, has attracted much attention, it is the American dependence on Japanese financial capital and technology that has concerned some the most. As noted above, many argue that this dependence is a byproduct of the

interdependent nature of current international economic relations and is a condition the U.S. must learn to live with. These "realists" believe that because American-Japanese interdependence has created certain economic realities which limit U.S. freedom of action in dealing with Japan, the best option for the U.S. is to hold the relationship together by linking security ties and common strategic interests. As specific examples, they could cite Tokyo's \$13 billion financial contribution to the Gulf War as well as the many U.S. high-tech weapons systems used so effectively against Iraq that depend "...on foreign suppliers, particularly the Japanese, for a growing number of state-of-the-art parts and components."²¹⁹

Although recent data shows "a reversal of long-term [Japanese] capital flows to the U.S." during 1990, over the previous five years \$180 billion of Japanese investment flowed into U.S. government securities.²²⁰ During this period there was a "growing perception in Washington that the Japanese are financing much of the [U.S.] Federal budget deficit."²²¹ A view which was based largely on the estimate that 30 percent of that debt was being purchased by Japanese investors.²²² According to Harvard professor Ezra Vogel: "Treasury wants no criticism of Japanese trade policy for fear they might stop buying our bonds."²²³

While the U.S. government has recently experienced little difficulty in selling securities at declining

interest rates, with reduced Japanese participation in Treasury auctions "the U.S. could come under pressure to save more or face higher interest rates worsening the likely recession."²²⁴ Nor can the U.S. assume that Japan's declining participation in the American government securities market implies less potential Japanese influence in the financial sector. As one Japanese Treasury official recently warned, "if the United States applied sanctions against his country..., Tokyo would respond by curbing credit to the United States, creating a 'very, very harmful' situation."²²⁵

Technological dependence is also a matter of growing concern to American defense analysts and officials who have come to recognize U.S. "dependence on Japan for semi-conductors and other components of [American] weapons."²²⁶ This situation is unlikely to improve in the near future. According to a recent DOD "Comparison of Technology Programs With Military Applications," Japan was on par with or ahead of the U.S. in 9 of 22 key technology areas compared with 5 areas each for the USSR and the non-U.S. NATO states.²²⁷

Some believe that the U.S. has little realistic choice but to accept this development and should therefore pursue "cooperation [with Japan] in [defense-related] high technology [which] would not only constitute progress on its own merits but might also provide a model for future collaboration beyond the realm of security."²²⁸ Although

Japan's military specific R&D investment is only a fraction of American expenditures, "the growing importance of dual use electronic technology to modern weapons"²²⁹ suggests that Japanese civilian technology developments can significantly complement U.S. military R&D efforts. Some steps toward U.S.-Japan technology cooperation have already been taken including a 1983 military technology sharing agreement as well as an arrangement for Japanese participation in SDI research. It is argued that further mutually beneficial cooperation in the defense technology sector could "set a valuable precedent for the larger relationship."²³⁰

The potential pitfalls of such cooperative efforts cannot be ignored, however. The recent controversy over the U.S.-Japan FSX aircraft codevelopment project demonstrates the difficulties of cooperation as long as economic suspicions persist. Of even greater concern is the potential for rising techno-nationalism in Japan which would use technology as a weapon against the U.S. As Shintaro Ishihara suggested in the book The Japan That Can Say "No": "If Japan sold chips to the Soviet Union and stopped selling them to the U.S., this would upset the entire military balance."²³¹ While Ishihara clearly overstates the case, the Pentagon admitted in a 1987 report that "21 U.S. weapons systems relied on foreign-made semi-conductors...[and] listed seven types of crucial military components available only in Japan."²³² A 1990 Defense Science Board study

described the American military's dependence on foreign sources as "a serious and growing problem."²³³

2. Summary Assessment

Obviously, Japanese financial and technological resources are of significant importance to the United States. However, U.S. dependence on them is neither absolute nor irreversible--it is rather a matter of costs. The U.S. could offset a loss of Japanese investment capital through either higher taxes, higher savings rates or higher interest rates. Such approaches would obviously not be painless--economist Lester Thurow has estimated that the American economy would need to contract some eight percent to eliminate its massive, heavily foreign financed, budget deficits.²³⁴ However, the looming global capital shortage of the 1990's²³⁵ may necessitate some or all of the above actions.

Technological dependence can also be reversed.

However, according to the Pentagon:

Foreign products are often cheaper, saving taxpayers' money, and often more reliable. Officials also contend that there is virtually nothing the military now imports that America couldn't produce itself if it had to. But switching to domestic substitutes would be expensive and difficult.²³⁶

Even if the U.S. chooses not to pay its way out of dependence, it should be recognized that interdependence cuts both ways. The Japanese will invest in the U.S. as long as the investment environment--favorable interest rate

differentials and exchange rates, security and stability, long-term growth potential, etc.--is attractive. When it is not, they will move elsewhere but not permanently. And Tokyo is not likely to use its leverage to purposely damage the U.S. economy. Indeed, "the Japanese *need* a healthy American economy as much as Americans do, and most Japanese government and industry leaders are quick to recognize this fact both publicly and privately [emphasis added]." ²³⁷

Similarly, Japan must sell its technology. As Japan's largest and most technologically advanced trading partner, the recipient of 30 percent of Japanese exports, only the United States can absorb large quantities of Japan's high technology manufactures. As a region Europe imports less than one half of U.S. totals and such comparable sized markets as China, the USSR and India remain limited in the quantity and complexity of the technology they can afford and utilize.

Despite periodic Japanese threats to use financial capital or technology as a weapon, they have shown little inclination to do so. Nor is it clear how decisive the impact of such actions would be--in terms of both its effect on the U.S. and its influence over the behavior of Japanese businesses and investors. Thus, as with both the strategic-military and the strategic partnership rationales, there may be a tendency in the interdependence debate to overstate the criticality of Japan's strategic importance to the U.S.

Clearly, the U.S.-Japan relationship is important but the continued necessity to subordinate American economic interests to strategic imperatives in American-Japanese relations may no longer be justifiable on the basis of the interdependence rationale alone.

D. THE MUTUAL INTEREST RATIONALE

1. The Concept

The mutual interest rationale is based on the premise that, on balance, the benefits to both countries of the U.S.-Japan relationship exceed the liabilities. As a result, every effort must be made to prevent divisive issues from causing a serious breakdown in American-Japanese relations. This can be best accomplished by frequent public and private emphasis on real or supposed strategic interests and goals shared by the two nations as well as the benefits to be gained by cooperative efforts. The targets of the mutual interest theme are audiences, both Japanese and American, who question the net benefits of the current relationship and third parties who would fear more independent calculation and pursuit of national interests by Tokyo.

Because "the U.S.-Japan military relationship is working better [today] than at any time since the revised Treaty of Mutual Cooperation and Security took effect in 1960,"²³⁸ it is most frequently the focal point for the mutual interest rationale. Official U.S. statements to this

effect abound, all stressing the same general theme that the "security alliance...is...the anchor for U.S.-Japan cooperation," and that it is "the foundation for peace and stability in the Asia/Pacific region."²³⁹ In addition, "the security treaty...forms the basis of the U.S.-Japan partnership, a partnership which has now grown to global proportions."²⁴⁰

The Japanese government frequently expresses this theme as well. According to Prime Minister Kaifu, "the [security] treaty will remain an indispensable element of the framework for peace and development in the Asia-Pacific...and, by extension, to the peace and security of the world."²⁴¹ Thus, what is essentially a narrowly focused bilateral security arrangement with vague references to "economic collaboration,"²⁴² has become the rhetorical basis for promoting the theme of U.S.-Japanese cooperation in pursuit of mutually shared interests and goals.

In articulating the mutual interest rationale American officials often equate common national characteristics with common interests. For example:

We [the U.S. and Japan] are the world's two largest democratic economies, the world's two most advanced technological powers, and the two largest donors of development assistance. Our close cooperation should make the critical difference in ensuring the successful resolution of a wide range of global issues. We both have a great interest in sustaining a peaceful, stable, democratic and prosperous world order. We have a shared responsibility to act decisively in ways that advance our mutual interest in Asia and around the world.²⁴³

They also dismiss divisive issues as natural byproducts of a relationship which is so large and complex, failing to acknowledge that they may be symptoms of more deeply rooted contradictions stemming from mutually exclusive national goals. Where differences do exist, they are often attributed to "diverse" rather than incompatible interests and are, therefore, always "manageable." Indeed:

Given the complexity of...[American-Japanese] economic, political and security relations--particularly in this period of global transition and adjustment--we should expect that there will be a certain degree of friction and frustration as well as friendship and cooperation in our relationship. We should candidly acknowledge that this is a normal situation for two partners with such important common responsibilities and wide-ranging yet diverse international interests and concerns. But we should also recognize that the strong bonds of trust and good will between our two countries give us the ability to overcome problems and misunderstandings when they occur.²⁴⁴

On more narrowly bilateral issues, the mutual interest rationale emphasizes the benefits that each nation accrues from the massive, multifaceted U.S.-Japan relationship--benefits that outweigh any gains to be made by major, unilateral actions to correct economic imbalances or by retaliation for unreciprocated advantages. According to one mutual interest proponent:

This relationship is of immense benefit to the peoples of both nations. The United States enjoys the support of a strong, loyal and democratic ally in the Pacific, which contributes greatly to regional peace and prosperity. Japan has the protection of the U.S. nuclear umbrella and enjoys great access to the U.S. market, the world's largest. The two countries' foreign policies and foreign aid programs complement each other. Our individual and cooperative scientific and technological achievements have brought about a new age of information, increased our

knowledge of ourselves and of our world, and contributed to the welfare of all nations. The lives of both peoples are enriched by a vast and burgeoning network of educational and cultural exchanges.

In sum, two nations that historically have acted quite independently have become interdependent. Neither nation can survive at the current level of economic welfare and security without the active cooperation of the other.²⁴⁵

As has been described earlier, the American-Japanese security relationship is characterized by the U.S. as the "critical linchpin of our Asian security strategy." Indeed, according to the Chairman of the Joint Chiefs of Staff:

Just as the United States without California would be a much reduced country, America without her Japanese ally would find it difficult to continue being the leader the Free World depends on to keep alive the powerful global movement toward peace and prosperity.

We could do it without Japan. We could still be a superpower, but we would need to increase dramatically the cost to the American people and the investment they would have to make. And there is simply no necessity for us to expend so much of our national treasure in that manner, if we can keep collective security alive and well. And in the Pacific, the key to that collective security is the U.S.-Japan relationship--in all of its many dimensions.²⁴⁶

2. Summary Assessment

The ultimate objective of the mutual interest rationale is to convince the Japanese, as well as critical elements of the American public and the U.S. Congress, that shared security, political and economic interests and benefits override divisive issues which might act to sever the current American-Japanese relationship. Secondly, it seeks to reassure other Asian nations that Tokyo will continue to act in parallel with the U.S. rather than assume a

more independent international posture. While the rhetoric may overstate the case, as the preceding sections of this chapter suggest, the mutual interest rationale has demonstrated its viability. Despite growing frustration and criticism of the relationship on both sides of the Pacific, the oft predicted breakdown has yet to materialize. However, this approach is not without its dangers to American interests.

In nurturing the perception that American and Japanese interests and destinies are inexorably tied and "that the United States has no single relationship more important than our ties with Japan,"²⁴⁷ Washington has undoubtedly encouraged Tokyo to be less forthcoming when negotiating solutions to divisive bilateral issues. In his book Agents of Influence, Pat Choate asserts that the Japanese have used effectively the threat of damage to long-term U.S.-Japan relations to face down American negotiators on several occasions during the 1980s.²⁴⁸ As long as the U.S. continues to refer to Japan as a "critical linchpin" and "strategic anchor," Tokyo is likely to question the credibility of tough-talking American negotiators and the lengths their government would go to back up its demands on the Japanese. Indeed, it may be the undercurrent of protectionist threats in the U.S. Congress that has provided these negotiators with a significant measure of the leverage they have rather than appeals to

common interests and goals. For this reason the mutual interest rationale serves American interests only if viewed as an element of a larger "carrot and stick" strategy in which the administration and Congress, in effect if not intent, act as contradictory yet complimentary forces.

A second danger in using the mutual interest rationale to keep the relationship's divisive forces in check is the risk that centrifugal pressures will build at a faster rate than they can be relieved through incremental negotiation and converging interests. This is especially true when the common interests that are promoted are not merely overstated but may even fail to conform to reality or at least to popular perceptions of reality. For example, Clyde Prestowitz and Selig Harrison assert that:

...the fiction of an essential similarity between the principles and purpose of the U.S. economy and those of its East Asian proteges...[has been used] to sustain American public support for the Pacific alliances in the face of the severe economic dislocations resulting from East Asian competition. Indeed, uneasiness over these alliances has grown in recent years with the realization that America's military allies are economic adversaries with greatly differing systems. But refusal to acknowledge that an adversarial trade relationship exists only adds to the built-in tensions now multiplying in both the defense and economic aspects of America's East Asian relationships. More important, it prevents the United States from responding effectively to the competitive challenge.²⁴⁹

The mutual interest rationale cannot be an effective substitute for a U.S. approach toward Japan that seeks to resolve divisive issues--at best, it can buy time to do so.

In summary, the mutual interest rationale may be a legitimate justification for some continued strategic emphasis in U.S.-Japan relations if it is used as a means to an appropriate end. This will not be the case if, by overstating Japan's importance to the U.S., it is used as an excuse for inaction or restraint both in resolving divisive bilateral issues and in protecting American economic interests. Instead, it must be seen as one element of a larger strategy for reconciling contradictions in U.S. views of Japan. In other words, it must clearly and realistically articulate common as well as conflicting interests--using the former as the basis for genuine cooperation and the latter as the starting point for unfettered negotiations which seek a balanced pursuit of American politico-military and economic interests.

E. IMPLICATIONS FOR THE UNITED STATES

Based on the assessment presented in this chapter, the rationales for continuing to place a predominant strategic emphasis on U.S.-Japan relations appear either to be less imperative than they were during the Cold War period or to rest on ambiguous assumptions. The U.S.-Japan relationship remains strategically significant but is not as important as was once the case.

The post-Cold War strategic-military relationship between the United States and Japan continues to serve

America's military interests, largely due to the cost-effectiveness and strategic location of U.S. bases in Japan, but is increasingly less vital to U.S. security. Furthermore, the suggestion that the alliance must continue to be characterized as a "critical" relationship partially to assuage regional fears of Japanese political and economic expansion risks a spiraling of American commitment as that expansion inevitably proceeds.

Washington's attempt to build a non-military strategic partnership with Tokyo, largely through American pressure to pursue joint goals, is based on the assumption that the Japanese share America's international aims and, most importantly, its concept of the means to achieve them. Evidence suggests that this is not consistently the case-- Japan has followed the U.S. lead when this benefits them but pursues its own course when interests dictate. The crisis in U.S.-Japan relations surrounding Tokyo's contribution to the Persian Gulf War is indicative of this process at work.

As a rationale for a predominant strategic emphasis in American-Japanese relations, U.S. dependence on Japan is also based on weak assumptions. Although real dependencies exist, they are neither absolute nor need they be permanent. Furthermore, this dependence is mutual and not so important as to provide the grounds for the paramount consideration of strategic interests over economic. Indeed, the past neglect

of U.S. economic interests has produced much of the current American dependence on Japan.

Finally, the mutual interest rationale, which may provide the best argument for a continuing strategic emphasis in U.S.-Japan relations, cannot be based indefinitely on American projections of common interests. As currently applied in most cases, this rationale is at best a transient approach which can be used to hold the relationship together while each nation redefines its vital interests in the emerging post-Cold War international environment. Any genuine and enduring strategic partnership will have to be based on these reformulated mutual interests rather than those which are assumed to exist today. Central to such a reexamination of interests, particularly for the United States, must be a reassessment of the relative priority of its economic interests vis-a-vis Japan.

V. ALERTS TO THE GROWING NECESSITY FOR AN ECONOMIC EMPHASIS IN U.S.-JAPANESE RELATIONS

Over the past two decades a number of American critics of U.S. policies toward Japan have asserted that the subordination of economic interests to security imperatives in the U.S.-Japan relationship has seriously damaged America's international position and its domestic economic health. Rapidly diminishing Cold War security imperatives since late 1989 have increased the force and visibility of this argument. Thus, no reassessment of the strategic importance of the U.S.-Japan relationship can ignore the rationales for placing greater relative weight on American economic interests in comparison to strategic imperatives.

American international economic policy has been driven by two major themes during the postwar period. First, it has rested "firmly on the foundation of free and open trade...[and therefore] emphasizes eliminating trade barriers wherever possible to allow market forces to channel resources into their most productive uses."²⁵⁰ Because the U.S. government attributes the current American trade deficit to "macroeconomic forces, particularly the imbalance between U.S. domestic savings--the sum of savings of households and corporations and the dissaving (deficits) of state governments and the federal government--and

investment,"²⁵¹ it continues to promote trade liberalization through bilateral and multilateral market opening measures. However, it also employs a variety of trade barriers when necessary to protect American industries from "unfair trade" and as an "adjustment to import competition."²⁵² Japan is probably the major bilateral target of U.S. market opening and market protecting measures.

The second theme of postwar U.S. international economic policy, as suggested previously, has been the tendency to subordinate American economic interests to Cold War security imperatives. As a result:

Throughout the postwar period, the overriding security imperative blunted trans-Atlantic and trans-Pacific economic disputes. The United States and its allies, particularly West Germany, frequently made economic concessions to avoid jeopardizing their global security structures. Cold War politics in fact sheltered the economic recoveries of Europe and Japan, and America's support for them. The United States seldom employed its security leverage directly in pursuit of its economic goals; indeed, security and economic issues remained largely compartmentalized in all of the industrial democracies.²⁵³

Critics of the current strategic emphasis in U.S.-Japan relations argue that these policies, but particularly the latter, are not justifiable in the emerging post-Cold War international security environment.²⁵⁴ The critics make the case that American national interests are no longer served by Washington's subordination of economic interests to security imperatives in the U.S.-Japan relationship and that the U.S. may need to compromise some degree of its free trade principles in order to successfully compete with

Japan. They cite three main rationales for this reversal of postwar priorities.

First, some assert that the end of the Cold War has created a new international security environment in which "the international position of individual countries will derive increasingly from their economic prowess rather than their military capability."²⁵⁵ As a result, the U.S. must place more emphasis on economic than strategic-military interests in general, and particularly in imbalanced relationships such as that with Japan.

Second, many critics argue "that the Japanese system is significantly different from Western-style democratic capitalism...."²⁵⁶ But, in order to obtain Cold War "defense cooperation," the U.S. has subordinated economic interests and "embraced the fiction of an essential similarity between the principles and purposes of the U.S. economy and those of its East Asian proteges."²⁵⁷ This rationale will receive the most lengthy attention both because it has dominated much of the recent American debate about Japan's economic challenge to the U.S. and because it offers an example of a national case of economic interests dominating all others--ironically, an approach even some of Japan's critics have advocated for the United States.

Finally, there are critics who assert that "some Japanese have decided that it is...in the nation's interest that its savings be used to make the United States dependent

on Japan...."²⁵⁸ Rather than dismiss such dependence as an unavoidable and relatively benign byproduct of greater global economic interdependence, these critics believe Japan's growing influence in the American economy represents an unacceptable loss of national sovereignty.

The proponents of these views contend that the U.S. can no longer afford to subordinate economic interests to military-strategic imperatives in the U.S.-Japan relationship. Instead, they believe that consideration of American economic interests should guide relations with Tokyo. A more detailed examination of each of these rationales is necessary to assess its validity in the emerging post-Cold War international environment.

A. THE ECONOMIC POWER RATIONALE

1. The Case for Economic over Military Power

The rapid decline in the Soviet political and conventional military threats to the U.S. since late 1989 is generally viewed as an historical watershed which offers Washington a major opportunity to reappraise and reprioritize its strategic interests. Those who make the case that post-Cold War American strategic emphasis should be placed on economic rather than military interests, a reversal of Cold War priorities, cite one of two versions of the economic power rationale. One version views the end of the Cold War as a seminal event which marks a fundamental

shift in the American national security paradigm. The other version, based on the premise that economic power is the foundation of national security, asserts that the end of the Cold War provides the U.S. a transitory opportunity to renew its economic strength and reconsolidate its world power position.

a. The New Paradigm

The new national security paradigm which is emerging slowly but not universally from the Cold War is based on the central assumption that "the new force in the world is neither arms nor political ideology, it is economic power."²⁵⁹ Some take the case even further arguing that along with economic challenges, environmental, resource and social threats to American national interests should receive higher priority as well. However, for the purposes of this study, economic interests are emphasized.

Proponents of the new paradigm argue that:

In determining our nation's priorities we cannot ignore that the postwar period is over, that the United States is now a debtor nation in a more competitive global economy, and that a whole new array of economic and environmental threats confronts us. We cannot ignore the economic challenge posed by the rise of Europe and Japan.... And we cannot ignore the opportunities offered us by the Soviet Union under Mikhail Gorbachev to end the Cold War and to staunch the hemorrhage of resources to a wasteful arms race.²⁶⁰

Indeed, one of the key tenets of the new paradigm is that:

...the new world that is unfolding contrasts very sharply with comparable periods of major historical transition. Unlike those earlier periods, no major new military threat is likely to replace the old one anytime soon.²⁶¹

The failure to recognize that this fundamental change in global security conditions represents a "potentially epochal turning point in our nation's history" risks:

...our nation's future...being determined by outdated and wrongheaded assumptions.... We cannot allow ourselves to stand idly by as our society's priorities are distorted by commitments to anachronistic concerns and goals. And we cannot remain silent in the face of unmet investment needs in our economy, our people, and our environment. The welfare of our society and our position in the world are at stake.²⁶²

The solution, these critics argue, is a massive reallocation of national resources, energy and policy focus from military to economic purposes to meet "the challenges that confront us as a nation in an era when power is increasingly defined in terms of a productive and solvent economy."²⁶³

They would accomplish this fundamental shift in national priorities by significantly reducing America's international military commitments which now "account for nearly 90 percent of the U.S. defense budget" and, all too often, a major portion of the national attention at the leadership level.²⁶⁴ Resources and policy-making would be refocused in accordance with a new national strategy, based on "the needs and goals of the nation in this new era,... [rather than one] formed more than 40 years ago for a far different world with far different challenges."²⁶⁵ This new

strategy would emphasize economic security goals over military security considerations in all cases except the most direct threats to vital U.S. interests and territorial integrity. Domestically, this would be a strategy of reinvestment and renewal; internationally it would emphasize cooperation and conflict resolution through diplomatic means.

b. The Economic Foundation of National Security

This version of the economic power rationale is based on the hypothesis of historical cycles of national power presented by Paul Kennedy in his book The Rise and Fall of the Great Powers. It is based on the premise that "if...too large a proportion of the state's resources is diverted from wealth creation and allocated instead to military purposes, then that is likely to lead to a weakening of national power over the longer term."²⁶⁶

In applying this hypothesis to the contemporary American position Kennedy asserts that:

Although the United States is at present still in a class of its own economically and perhaps even militarily, it cannot avoid confronting the two great tests which challenge the longevity of every major power that occupies the 'number one' position in world affairs: whether, in the military/strategic realm, it can preserve a reasonable balance between the nation's perceived defense requirements and the means it possesses to maintain those commitments; and whether, as an intimately related point, it can preserve the technological and economic bases of its power from relative erosion in the face of the ever-shifting patterns of global production. This test of American abilities will be the greater because it...is the inheritor of a vast array of strategic commitments which

had been made decades earlier, when the nation's political, economic, and military capacity to influence world affairs seemed so much more assured.²⁶⁷

While Kennedy acknowledges that his hypothesis is not deterministic, critics of American policy contend that the U.S. has fallen into the trap of military overcommitment, "imperial overstretch" as Kennedy calls it, which has historically resulted in the decline of national power that he describes. America's current debt crisis and its relative economic decline are indicative of this process at work, they believe. To reverse it, the U.S. must seize what is probably a transitory historical opportunity, offered by the virtual disappearance of major external threats, to reallocate resources to the restoration of national economic power. Indeed, "better macroeconomic performance on the part of the United States is not only an economic objective but also a growing strategic concern if the nation is to maintain a position of leadership in national security affairs worldwide."²⁶⁸

Thus, according to these critics the end of the Cold War represents not the beginning of a new national security paradigm but the return of a more traditional one characterized by multinational competition for power. While military capability may remain a tool in such competition, national power, including military capability, is ultimately based on a nation's underlying economic strength. This strength derives significantly from productivity growth,

technological superiority, and competitiveness in international markets. The pursuit of these goals, rather than the preservation of strategic commitments, must therefore top the list of post-Cold War American priorities even at the expense of clear-cut international military leadership.

2. Counterviews

The main counterviews to the economic power rationale come from those who are not yet ready to fully accept the end of the Cold War or who argue that the post-Cold War world will experience a regionalization and proliferation of conflict which will continue to seriously threaten U.S. interests.²⁶⁹ Those who hold the former view can point to the Soviet Union's persisting military capability and assert that it is this capability rather than intentions alone which must command U.S. attention, since intentions can change quickly. Thus, the U.S. should not substantially reduce its military commitments and investments until more significant reductions in Soviet capabilities are observed and verified. Indeed, these critics would point to the crackdown in the Baltics and the growing influence of Soviet hardliners as evidence of how tenuous the reliance on intentions can be.

Proponents of the latter view point to the Persian Gulf War and contend that, even in the absence of a major Soviet threat, other significant security threats remain. Thus, military power continues to be the ultimate guarantor

of American interests which are and will continue to be global. This case was examined in some detail in Chapter III.

Both counterviews acknowledge that some military cuts are unavoidable. They would therefore argue that the U.S. must continue to rely on its collective and bilateral security arrangements, despite the end of the Cold War, as a means of sharing global defense costs. Again, they can point to the Persian Gulf coalition as an example of this necessity. In addition, critics of the economic power rationale cite the continued validity of the Cold War era assumption that American economic interests and power ultimately depend on the global stability which itself derives from U.S.-led collective security arrangements and military commitments. Indeed, by placing economics first "the end of the Cold War could sharply heighten the prospects of a trade war," and "the ultimate paradox of the twentieth century would be a realization of the Marxist prophecy of an inevitable clash among the capitalist nations just as the political conflict spurred by Marxist ideology is waning."²⁷⁰ To avert this and to continue to deter economically damaging instability or conflict, the U.S. must continue placing strategic-military imperatives over economic interests (since the latter ultimately depend on the former). Otherwise, America will decline as both an economic and a military power and as a world leader.

3. Summary Assessment

The case has been presented earlier in this study that the end of the Cold War represents a fundamental shift in the global security environment--a shift which challenges many of the underlying assumptions of American national security strategy. This study has also argued that the recent Persian Gulf experience represents a short-lived diversion from rather than reversal of this trend. The world which is now emerging, while not free of the potential for conflict nor of military threats to U.S. interests, is fundamentally different in terms of the qualitative proliferation of threats to American security. Declining economic competitiveness and other domestic economic deficiencies represent threats to the national welfare and to America's international power base equal to virtually any military threat facing the U.S. today with the exception of Soviet nuclear capability.

Whether the post-Cold War security environment represents a shift to a new national security paradigm or a temporary respite preceding a return to a more traditional multipolar or even non-polar system is less important to the purposes of this analysis than are the implications for the United States of the shift itself. Whichever the end, the means are essentially the same. They are driven by the emergence of an international environment in which, "for the first time in over half a century, no single great power, or

coalition of powers, poses a 'clear and present danger' to the national security of the United States."²⁷¹ Thus, according to the President, the opportunity is presented by "these changing strategic circumstances" to restructure America's defense strategy through "deliberate reductions to no more than the forces we need to guard our enduring interest...."²⁷² This represents the initial step toward the goal of domestic resource reallocation called for by both versions of the economic power rationale (though it does not necessarily indicate that the underlying premises have been fully accepted). Whatever the shape of the post-Cold War world, the United States must reinvigorate the broad means of its international power and leadership through a return to national solvency. According to John Lewis Gaddis:

The last American president to preoccupy himself with solvency, Dwight D. Eisenhower, regularly insisted that the National Security Council specify as 'the basic objective of our national security policies: maintaining the security of the United States and the vitality of its fundamental values and institutions.' To achieve the former without securing the latter, he warned, would be to 'destroy what we are attempting to defend.'²⁷³

While the economic power rationale does not specifically address the U.S.-Japan relationship, it does imply that America's interests should be calculated with more clear consideration of economic costs and benefits. No other relationship might be more effected by such a change in American emphasis than that between the U.S. and Japan.

However, such a shift in emphasis need not mean greater conflict in American-Japanese relations. Indeed:

...in a more relaxed security environment, greater U.S. leverage [created by the ability to defer less to security imperatives] can lead to a moderation rather than an increase in trade frictions. Freed from the necessity to pretend that the U.S. and East Asian economic systems are the same as a rationale for the alliances, the United States could acknowledge the reality of systemic differences and deal with them in a more pragmatic and flexible manner.²⁷⁴

B. THE "JAPAN IS DIFFERENT" RATIONALE

1. The Case for the View that Japan is Different

The "Japan is different" rationale is based on the assertion that:

...the operational realities of the Japanese political and economic system are distinctly different from those in North America and most of Western Europe. The Japanese system is more likely to sacrifice the consumer's welfare in order to strengthen its businesses. It encourages the very concentrations of economic power that American-style trustbusting and deregulation seek to break. When individual rights and collective well-being come into conflict, Japan is more likely to promote what it sees as the whole society's interests. The result of these and other traits...is a system whose goals and performance may not be accurately described by the Western model of democratic capitalism.²⁷⁵

Translated into international economic behavior, the effect of Japan's differences is to produce a form of "latter-day mercantilism" which is in fundamental conflict with the American vision of a mutually-beneficial free trade regime.²⁷⁶ The Japanese do not object to a free trade system, indeed they depend on it. However, "their own cultural, social, and political priorities have led them to

organize and run their [domestic] econom[y] on the basis of principles different from those of the United States."²⁷⁷ Foremost among those principles is that a high rate of national savings should be promoted by suppressing domestic consumption and maximizing exports. One way Tokyo has contributed to the former is by maintaining an economic structure which discourages foreign penetration of Japan's domestic market in order to minimize competitive market forces. It contributes to the latter through a system which aggressively targets export industries and markets. The goal of this effort is economic security through unrelenting industrial expansion.

Author Karel van Wolferen attributes Japan's unwavering pursuit of this economic goal to two main factors. First, the Japanese economy is not guided at the macro-level by the same concept of free-market forces which guides most Western capitalist nations. Instead, it is driven by a bureaucratic-business partnership that:

...has an industrial policy and a trade strategy. Freedom of the market is not considered a desirable goal in itself, but only one of several instruments for achieving predetermined effects that are totally subordinated to the ultimate goal of industrial expansion.²⁷⁸

Chalmers Johnson refers to this economic system as that of a "Capitalist Development State" to distinguish it from the classic capitalist model.²⁷⁹ Under this model consumer needs and benefits are subordinated to the greater interest of national gain. As a result, while:

The USA stresses that Japan itself stands to gain from free trade and open markets,...what it means by this--greater choices for the Japanese consumer--is not at all what the Japanese administrators understand by gain. A truly open market would undermine the domestic order, so how, in their eyes, could this ever be considered a gain for Japan?²⁸⁰

The second factor van Wolferen points to is the lack of a political center in Japan. Instead he argues that the Japanese political system is characterized by:

...the preservation of a careful balance between semi-autonomous groups that share power. Today, the most powerful components of...the Japanese System are certain groups of bureaucrats, some political cliques and clusters of industrialists. There are lesser ones, such as the agricultural cooperatives, the police, the press and the gangsters. These semi-autonomous components, each endowed with great discretionary powers, are not represented in one central ruling body.²⁸¹

As a result of this fractured power sharing system, "no essential political decisions to change the priority of unlimited industrial expansion have been made..." since a "...political mechanism for such a momentous decision does not exist."²⁸²

The ability of the Japanese bureaucratic-business partnership to successfully pursue its policy of "unlimited industrial expansion" is supported by the existence of a number of unique elements of Japan's economy which impose order on the domestic market and channel resources in pursuit of "national" objectives. These mechanisms are either foreign to, illegal, or rejected as interventionist in most Western market economies. A few of the more noteworthy examples are described below:

a. Industrial Policy

The notion that Japan's success has been guided by an industrial policy is dismissed by some Western economists who believe that such market interventionism is ultimately inefficient and self-defeating. Others believe Tokyo has largely given up on this policy which did guide its early economic recovery. Instead, these observers credit Japan's impressive economic gains to other factors such a "high savings and investment rates and educational levels [which] arise from cultural bases."²⁸³ However, former trade negotiator Clyde Prestowitz rejects this assertion and attributes these and other means of Japan's continuing success to calculated government interventions in the market. Japan's high savings rate for instance:

...did not occur by accident but was encouraged by tax-free postal savings accounts, no interest-payment deductions (even for mortgages), no consumer credit, bonus-based salary systems, and other measures. ...[And while] Japan maintains low interest rates, which benefit its heavily leveraged...capital-intensive industries,... consumer loans, if available at all, usually carry high interest charges.²⁸⁴

In addition, Prestowitz believes that the Japanese government has, in effect, rejected the classical doctrine of "comparative advantage" as an underlying principle of international trade because "implicit in this thinking is the notion that all industries have roughly the same economic and strategic value."²⁸⁵ Instead, in the Japanese view, "when the technology concerned is critical to

the security of a nation's economy, the government of that country will be forced to take the necessary measures to develop the industry concerned so that its firms can become competitive and ensure the security of the country's economy."²⁸⁶ As a result, the Japanese bureaucracy targets promising business sectors "to create an industry that produces technologically sophisticated products with high income elasticity and a rapid growth, [an]...objective [which they believe]...cannot be achieved without government intervention."²⁸⁷

b. Market Share over Profits

Japanese companies are often credited for placing emphasis on long-range goals rather than short-term profits, an approach considered foreign to many American firms (some characterize this as a major weakness of U.S. companies). According to van Wolferen this approach is not accidental nor altogether the result of enlightened minds. Specifically:

...postwar Japanese firms have been strongly discouraged by a complex of tax and other regulations from raising capital on public markets with stocks and bonds, [instead]...the members of a conglomerate tend to own each other. The banks in particular generally hold large quantities of their clients' stocks; and Japanese banks have entirely different priorities from Western stockholders. Company presidents in Japan, instead of being bothered by major stockholders breathing over their shoulders and forcing them to watch the profit charts, have to worry about the expansion schemes they and their bankers have agreed on.²⁸⁸

As a result of this typical arrangement as well as the predominance of managers over entrepreneurs in Japanese firms, there has occurred a:

...shift in emphasis from profit-making to expansion of the firm's market share. In the Western corporate environment the pursuit of profits and the expansion of market share are both respectable and are, of course, interrelated. What has made the post-war Japanese case special is the apparent possibility, for corporations, of ignoring profit for very long periods while pouring all their resources into expansion.²⁸⁹

This business behavior has provided the Japanese with an advantage "in the battle for foreign market shares... [created] by 'economies of scale' achieved through reliance on a solid share of the home market and relatively high domestic earnings that often subsidize the exports."²⁹⁰ American firms, on the other hand, are at a distinct disadvantage because they cannot "even remotely, match the financing back-up of the Japanese companies; and, as companies subject to the scrutiny of stockholders and boards of directors, their decisions had to be based ultimately on considerations of profitability."²⁹¹

c. The Keiretsu System

In the wake of the U.S. occupation of Japan, the *zaibatsu*, which had been incompletely targeted for break-up, reemerged in the form of economic groupings called *keiretsu*.²⁹² These business alliances consist of networks of interlocking companies formed by major banks and trading companies. They are "linked by cross-shareholdings, common

banking affiliations, and the use of the same trading company to procure raw materials and to distribute products."²⁹³ The system consists not only of horizontal connections among companies but also strong vertical relationships between a large manufacturer and its suppliers and distributors. In fact, there "is a tendency for manufacturers to make captives of their suppliers and distributors--relatively easy to do, because of the weakness of the anti-trust laws and their enforcement...."²⁹⁴

The *keiretsu* system makes it extraordinarily difficult for an American company to build an independent presence in the Japanese market especially within an established industry. Because the *keiretsu* linked firms are tied together by special relationships (both in a business and a cultural context), there is a sense of mutual obligation which supercedes market forces. Unless an outsider is willing to become a part of the system, and this is very difficult for a foreign firm, it is unlikely to establish a major market share in Japan. Although *keiretsu* type practices violate American antitrust laws, there have been accusations that Japanese companies are importing aspects of the system with their U.S.-based operations.²⁹⁵

2. Japan's Threat to the U.S.

Many proponents of the "Japan is different" rationale insist that their purpose is not to condemn the Japanese but to make others recognize the threat posed by

their approach to international trade. Japan's competitors and trade partners must therefore adjust their own policies to take Japanese differences into account, basing "their plans on the current Japanese system, not the one they hope may eventually evolve."²⁹⁶

As evidence of the threat to the world trading system and to the U.S. economy the proponents cite a number of structural imbalances such as:

1. the chronic trade deficits between Japan and the U.S. and between Japan and the rest of the world;
2. the failure of the sharp increase in the value of the yen to the dollar beginning in 1986 to eliminate Japan's trade surplus with the U.S.;
3. the one-sidedness of Japanese trade patterns--less than half of Japan's imports have been manufactured products, virtually all its exports are;²⁹⁷
4. Japan's targeting of foreign markets which includes use of dumping and price collusion to drive domestic manufacturers out of the market;
5. the export of Japan's business practices such as the *keiretsu* system to foreign countries in which local operations are established; and
6. the lack of reciprocity in its own market which discourages FDI and virtually requires foreign companies to enter into joint ventures with a Japanese counterpart if they desire to do business successfully or on a large scale in Japan.

While it may have been necessary to accept these imbalances during the Cold War when American military security interests prevailed, the U.S. should no longer tolerate them the critics contend.

As a result, the proponents of the "Japan is different" rationale argue for U.S. policies ranging from protectionism to an American version of Japanese industrial policy to economic "containment" of Japan. Most agree that the U.S. must seriously address its own domestic economic shortcomings--chronic budget deficits, low savings rate, and mediocre educational standards. Many also argue, however, that Washington should "manage" its trade with Japan to protect vital American industries from unfair Japanese competition. In advocating this approach, they acknowledge that:

...any interference in trade patterns can impose short-term costs on consumers. But no society has ever acted as if having the lowest possible consumer prices was the highest possible social goal. Developed societies could drive down prices if they permitted child labor, or outlawed unions, or removed all restrictions on immigration, or abandoned public projects like space exploration or medical research that increase burden on the taxpayer. To say that a new trade policy might raise prices in the short run does not end the argument; rather, it should begin a discussion of the other costs and benefits at stake.²⁹⁸

Again, "the crux of the situation is that the United States and Japan have fundamentally different understandings of the purposes and workings of a national economy."²⁹⁹ As a result:

Few, if any American companies can compete with the Japanese in the areas the latter deem important. The social and industrial structure of Japan have made it an extremely difficult market to penetrate; furthermore, the Japanese government views industrial performance as akin to national security and pours enormous energy into ensuring that its industry is the world leader. By comparison, the United States has been relatively easy to

penetrate. Its open society makes for an open market that has welcomed foreign goods and foreign businessmen. Most important, however, the United States does not view industry as a matter of national security as Japan does.³⁰⁰

Until the U.S. reverses this view, the proponents of "Japan is different" argue, America's economy will continue to decline relative to Japan and others.

3. Counterviews

There are four main counterviews to the "Japan is different" rationale. While none of them necessarily reject the premise that the Japanese economy operates differently from the American, they generally downplay the significance of those differences as well as the need for specific U.S. policies to address them.

One of the counterviews asserts that the major cause of U.S.-Japanese economic imbalances has little to do with Japan. Instead, responsibility is largely American.

According to this view:

...all Japan's unfair trade practices, taken together, block no more than \$8 billion to \$15 billion in potential sales, whereas the recurrent bilateral trade deficit ranges between \$35 billion and \$40 billion. The fundamental cause of the imbalance lies in the disparity between savings and consumption in the two countries: the United States consumes more than it produces and does not save enough to build the additional productive capacity to make up the difference, leading to a trade deficit that supplies excess American consumption and inflows of foreign capital that make up for insufficient American savings. Thus, even the most aggressive market-opening demands on the part of the United States would leave the largest part of the problem untouched, unless there is a simultaneous change in underlying U.S. behavior toward savings and consumption, including public consumption as embodied in the federal deficit.³⁰¹

Other versions of this view suggest that America's inability to compete with the Japanese stems from such factors as U.S. business ineptitude, conservatism and/or parochialism, domestic social ills, mediocre educational standards and misallocation of resources (e.g., to military vice civilian R&D). Japanese competition, therefore, is not the cause but a symptom of the underlying problem--declining U.S. productivity stemming from adverse domestic conditions. These critics contend that the Japanese are too often used as a scapegoat for American economic problems, which only diverts attention from the pressing domestic crises which are the true cause of U.S. decline. Indeed, this view combined with Kennedy's "imperial overstretch" thesis is popular among many Japanese.³⁰²

The second counterview is the virtual opposite of the first. Its proponents contend that the decline of the American economy has been grossly exaggerated and that radical solutions to relatively minor problems, including the U.S.-Japan trade deficit, are not required. In fact, they argue, America's decline has not been absolute, and its relative decline during the postwar period only reflects a shift back to a more normal position from the unprecedented and unsustainable dominance of the U.S. at the end of World War Two.

According to one proponent of this view, the trends over the past twenty years or so are far more positive for

the U.S. than many believe:

From the late 60's through 1989, our share of the gross world product remained at 20 to 25 percent. From the 60's through the 80's, manufacturing provided at least 24 percent of our GNP, requiring ever fewer workers as reindustrialization has advanced. Real productivity per U.S. worker is by far the world's largest--and 50 percent above Japan's. In the 70's and 80's, as trade has expanded, our share of world exports remained at a stable 17 percent. Foreign branches of U.S. companies, far larger than anyone else's, in '87 recorded more than \$1 trillion in sales: four times our exports and seven times our trade deficit that year.³⁰³

The essence of this view is, as the above statistics appear to show, that the U.S. is, and has been, on the right general course and needs only make minor corrections to solve domestic social problems rather than major changes to meet the Japanese or any other foreign economic challenge.

The third counterview is that of the free trade idealists. They believe that Japanese and other foreign competition is ultimately beneficial--it provides American consumers with better choices at lower prices and provides incentives to U.S. producers to innovate and cut costs. In addition, interdependence is a reality of the international economic system which benefits all. The U.S. should therefore continue to nurture the global free trade regime, despite the persistence of some national deviations such as in Japan, because free trade results in the most efficient allocation of the world's resources and maximizes everyone's economic wealth. Eventually, the proponents of this view believe, even the Japanese will come to accept the benefits

of free trade and will open their markets accordingly. The U.S., in the meantime, must resist any temptation to do the opposite.

The free traders can cite various evidence of the validity of the argument. First, they can point to the results of a recent Commerce Department study which showed a resurgence of America's manufacturing sector during the 1980s, a revival which occurred even as many critics were pointing to growing trade deficits as evidence of U.S. industrial decline. In fact, American manufacturers:

...now account for a robust 23.3 percent of the nation's gross national product. That figure is up from 20 percent in 1982, the post-World War II low, and matches the level of output achieved in the 1960's when American factories hummed at a feverish clip. The new data put United States manufacturers on a par with those of Japan and Western Europe.³⁰⁴

In productivity terms "factory efficiency raced ahead 3.6 percent a year during the last decade, about as fast as the average of United States trading partners, including Japan, Canada and Western Europe."³⁰⁵ The spur of foreign competition, the free traders would argue, was the driving force behind these positive trends.

Free trade proponents would also assert that imbalanced trade statistics are deceptive in a highly interdependent international economic system. For example:

If America's 'trade' balance is measured on the basis of nationality of ownership rather than residency (i.e., adding the sales, net of local purchases, of overseas subsidiaries to the recorded trade balance and deducting all intra-firm flows to avoid double counting), then in

1986 America's recorded visible-trade deficit of \$144 billion is transformed into a \$57 billion surplus. Doing the same calculations today would probably give America the world's biggest trade surplus.³⁰⁶

Finally, free traders cite the benefits to American consumers of unrestricted international commerce. Competition and easy market access maximize a consumer's choice, buying power, and ultimately his standard of living. Critics would counter that this same competition has resulted in the loss of millions of U.S. jobs--two million in the industrial sector alone between 1979 and 1989.³⁰⁷ These losses can be attributed to foreign imports directly or indirectly to the automation efforts and the shift of operations overseas necessary for U.S. businesses to remain competitive. The free traders acknowledge that foreign competition can force painful readjustment on domestic workers but argue that their shift to more efficient sectors is a better application of resources and provides the worker with greater long-term job security. They can cite the continuing strength of the American export sector during the current recession as an example.³⁰⁸ Indeed, 88 percent of U.S. economic growth in 1990 was accounted for by exports.³⁰⁹

The fourth main counterview asserts that Japan's strength is overstated and that its current advantages are likely to balance out over time. This is because Japanese differences are either impermanent or of only conditional

value. Japan's capital surplus, for instance, has resulted from a unique "combination of circumstances: abundant savings, low and falling government borrowing, low and falling domestic corporate investment, a strong dollar in 1982-85, and, last but not least, a rapid growth in productivity."³¹⁰ It is unlikely that these circumstances will persist indefinitely. Indeed, Japan's exchange rate advantage has already declined substantially and there are signs that Japanese domestic capital requirements are increasing (reflected in high interest rates and net capital outflows from the U.S. back to Japan). The decline of Japan's overvalued stock market and its inflated real estate prices, both engines of capital accumulation during the 1980s, are contributing to the reversal of Japanese capital flows.³¹¹

These and other, longer-term trends, such as the aging of Japan's population and the growing shift of manufacturing operations overseas, suggest that simple extrapolation of the growth in Japan's international economic strength will produce an exaggerated estimate of Tokyo's future economic power and influence. However:

To say that the Japanese sun also sets is not to argue that Japan's economy is going to collapse, nor is it to argue that the force of Japanese competition throughout industry is suddenly going to vanish. The argument is that Japan's economy is passing through a phase of imbalance with the world that will soon be righted, removing the main source of Japan's growing political strength. The correction of that imbalance will reveal the limits to Japanese power; it will not remove that power altogether.³¹²

Another version of this view holds that the Japanese are coming to understand that they cannot sustain the unique circumstances (i.e., their "differences") which have led to so much of their economic success over the past four decades. To do so threatens to undermine the very free trade regime which has made that success possible through assured access to resources and export markets. As a result:

Japan's leaders are coming belatedly to the realization that wrenching change lies ahead. A great national debate is raging beneath the surface, not about whether change will come, but rather about how and when it will come and how it will be managed.³¹³

4. Summary Assessment

The case that Japan's economy operates differently than the classic Western free-market model is difficult to dispute, as are the assertions that the Japanese system discriminates subtly and overtly against foreign competitors. The American Structural Impediments Initiative represents the acknowledgment by the U.S. government that these differences, rather than some set of visible official barriers, now account for much of the U.S.-Japan trade imbalance. This recognition of pervasive structural differences represents a significant shift in policy for a government which had for years attempted to open Japan up one protected market at a time. That this approach alone will produce effective solutions to the real and perceived imbalances caused by Japan's differences is by no means

guaranteed, however. Indeed, while attempting to change the Japanese has had some positive impact, it has also generated resentment in Tokyo and has not kept ahead of the growing frustration in the United States. As a result, "the danger is that the spiral of rising passions on both sides will lead to restrictions on investment, tariffs and embargoes, interest rate battles--the real economic war that people only hallucinate about now."³¹⁴

Thus, it is unclear whether the more assertive, unilateral action advocated by the "Japan is different" proponents will be productive. Indeed, the U.S. already "manages" trade. For example:

...by the end of 1987, fully 35 percent (by value) of the goods produced in the United States were protected by some form of nontariff barrier--including countervailing duties, anti-dumping levies and so-called voluntary restraint agreements.... The comparable figure in 1980 had been 20 percent. Moreover, the U.S. government continues to subsidize American industry to a degree that makes most other nations seem like laissez-faire purists by comparison. Federally subsidized loans and loan guarantees, state and local tax abatements, and generous grants of 'eminent domain' authority are routinely available to American businesses. Over one-third of all the research and development costs of American corporations are now funded by the federal government.³¹⁵

The costs to American consumers of these policies are high. The Federal Trade Commission estimates that the cost to textile quotas alone runs about \$11.5 billion per year.

The value of protectionism to American manufacturers is also unclear. One can make the argument that the rebound in productivity of U.S. industry over the past decade

resulted not only from the threat of foreign competition, as suggested by the free traders, but also from the breathing spell provided by the measures described above. Some analysts of competitive advantage discount this view, however. They have found that "protection to allow established industries to adjust rarely succeeds."³¹⁶

In any case, what the U.S. appears to require is not more trade management but rather a strategic focus to guide its trade policy. National interests, not political clout should determine which industries are nurtured or protected. American consumers should not be asked to subsidize jobs when the cost to do so clearly exceeds the economic benefits derived, unless the value to the national interest is unassailable. Furthermore, although threats of trade sanctions may be effective negotiating cards, they must not be used in a way that might jeopardize the positive trends in the U.S. trade position of the past three years.

The improvement in the American trade balance with Japan is indicative of these trends. Since peaking at \$52 billion in 1987, the U.S. merchandise deficit has dropped to \$38 billion in 1990,³¹⁷ a decline equivalent to what many economists had estimated as the maximum possible if Tokyo lifted all its trade barriers. And, in a reversal of conditions which had favored raw materials, sixty percent of American exports to Japan are now manufactured goods, meaning "that in 1989 U.S. manufactured exports to Japan

totalled \$27 billion--higher than U.S. exports to Germany and France combined."³¹⁸ Indeed, since 1985 overall exports of American manufactured goods have increased 80% to \$316 billion out of \$389 billion in total exports in 1990.³¹⁹ At \$389 billion total U.S. exports exceeded Japan's by over \$100 billion,³²⁰ making the United States one of the world's two largest exporters along with Germany, not Japan. While exports as a percent of GNP continues to favor Japan over the U.S. at ten to seven percent respectively,³²¹ that gap has narrowed considerably and demonstrates that exports are now nearly as important to the U.S. economy as they are to Japan. In current account terms, Japan's surplus and America's deficit are narrowing--both are now within one percent of GNP.³²²

The implication of these statistics seems clear--more extensive "managed" trade could impose costs on American consumers and workers (every \$1 billion in exports may account for 25,000 U.S. jobs³²³) which exceed any gains to be made from protectionist efforts to force U.S.-Japan trade into balance. This would be especially true if Tokyo, which is increasing less dependent on the American market, were to reciprocate. This is not to dismiss the value of continued pressure on the Japanese to open markets and eliminate discriminatory practices in general. However, it does suggest that more radical measures are undesirable.

What the U.S. needs is a policy toward Japan which enhances its negotiating leverage without resort to protectionist measures. Such a balanced American strategy must begin with a clearer assessment of American interests. Combining pressure on Tokyo with U.S. domestic reform and resource reallocation, alliance with advocates of change in Japan, and a reduced emphasis on Japan's military-strategic value to the U.S. can reinforce and accelerate the current positive economic trends.

C. THE LOSS OF SOVEREIGNTY RATIONALE

1. The Loss of Sovereignty Scenario

The key factor underlying the loss of sovereignty rational has been an "historical role reversal" which began in 1986. In that year, "Japan replaced the United States as the world's leading creditor" nation while the U.S. rapidly became its largest debtor.³²⁴ This shift in national economic fortunes, and the massive Japanese capital flows into the U.S. associated with it, have led critics to argue that American economic sovereignty is at risk. Indeed, they assert, America's growing dependence on Japanese capital to finance its public budget and private investment shortfalls is giving Tokyo a dangerous degree of influence on U.S. economic performance and political decision-making. Most ominously, some suggest that this is part of a Japanese strategy to make the United States dependent on Japan and

therefore reluctant to take actions which might seriously jeopardize U.S.-Japanese economic interdependence.³²⁵

Evidence of Japan's growing presence in American capital markets, in real estate and in direct investment include:

1. it is estimated that Japanese investors directly financed "as much as 30 percent of the American government's budget deficit" during the mid- to late 1980s.³²⁶ Between 1984 and 1989 this represented the net purchase of nearly \$200 billion of U.S. government securities;³²⁷
2. Japanese banks now hold about 10 percent of American banking assets;³²⁸
3. Japanese foreign direct investment in the United States reached \$70.6 billion in 1989, 17.6 percent of total FDI in the U.S.³²⁹ As a result of this investment over "a quarter-million Americans already work for Japanese employers," a number that is expected to reach a million during the 1990s;³³⁰ and
4. Japanese investments in American real estate are estimated at about \$60 billion.³³¹

Significantly, virtually all of this substantial presence has grown from a very small base at the beginning of the 1980s.

The contention of the loss of sovereignty critics is that the trends which account for these statistics in only a decade will continue unabated and that the Japanese will be increasingly willing to use this financial leverage to influence American policy. Some suggest that this is especially disconcerting since Japan's interests are bound to conflict with America's. Specifically:

This divergence of interests will take place with all foreign investors, but it is destined to be most pronounced with the Japanese. In order to pay off its huge debt and avoid new troubles, the U.S. economy needs rapid growth, even at the expense of rising inflation. But the Japanese, as the world's largest creditors, can be expected to back slow growth and low inflation. In addition, Japan is an importer of raw materials, and a rapid expansion of the global economy would mean an increase in raw material prices.³³²

The critics argue that the reversal of America's loss of sovereignty requires both domestic actions--reduce debt, increase savings--as well as controls on foreign investments in the U.S., managed trade and greater international burden sharing. The ultimate goal must be to reduce U.S. dependency on foreign capital, and especially Japanese capital, as rapidly as possible.

2. Counterviews

The main counterviews to the loss of sovereignty rationale contend that the perceived threat to the U.S. posed by Japanese and other foreign investment is either exaggerated or really does not exist at all. Those who argue that the threat is exaggerated point out that the foreign presence in the U.S. economy is really very modest. They note for instance that the percentage of real American wealth held by foreigners is a negligible 0.01 percent. Specifically, "foreigners are estimated to own about ten percent of the U.S. manufacturing base (including new additions to capacity), some four percent of corporate stock, less than two percent of commercial property, and

about one percent of total real estate."³³³ Although the size of foreign investments has not been overwhelming in comparison to the total size of the U.S. economy, its rate of growth during the 1980s was unprecedented.³³⁴ However, it appears that there has been a significant slowdown of these trends over the past year.

While the Japanese position in U.S. government securities was uncomfortably large for a single nation during late 1980s, this situation has also begun to reverse itself with such investment showing a net \$16 billion outflow in 1990.³³⁵ However, even before this reversal in the level of U.S. government securities held by the Japanese, the amount of American government debt held by foreigners was not abnormally high:

For example, in 1987 foreigners held 11.3 percent of gross federal debt as compared to 15.5 percent in 1978. In 1987 foreign holdings accounted for 14.1 percent of the federal debt held by the public as compared to 19.8 percent in 1978. In general the percentage of federal debt held by foreigners rose during the 1970s and declined during the 1980s.³³⁶

The other, even more optimistic, counterview holds that the massive flow of foreign investment into the U.S. was not a problem but a boon. What this inflow reflected was the growing interdependence of global capital markets and the natural tendency of funds to move into the most productive investments. During the 1980s those investments were in the United States.³³⁷ Indeed, America's persistent current account deficit has reflected the desire of

foreigners to invest in the U.S. rather than buy its products. In fact, "a per capita comparison shows that [the U.S. and Japan] each buys about the same amount from the other: in 1987, \$374 in U.S. imports from Japan per capita, and \$360 in Japanese imports from the United States."³³⁸ Not surprisingly, the Japanese would rather invest their surplus in the U.S. rather than buy more goods. These investments contribute to American productivity improvements and economic growth. Indeed, "since the commencement of our trade deficit in the first quarter of 1983 [through 1988], the United States has created over 15 million jobs net"³³⁹ (though critics of this rosy view would assert that the majority of these jobs were in the low skill, low pay service sector).

In addition to these points, those who minimize the significance of America's massive foreign borrowing argue that the U.S. debtor status is based on the "book" vice "market" value of America's own foreign investments³⁴⁰, that temporary demographic trends rather than permanent conditions caused the decline in U.S. savings over the past decade³⁴¹, and that "business saving during the 1980's offset the fall in the personal saving rate."³⁴² In sum, America's growing dependence on foreign debt during the 1980s was not a negative trend and, in any case, is likely to be reversed by market mechanisms and demographic factors over the long-term.

3. Summary Assessment

As discussed in Chapter IV, America's dependence on foreign capital is not an inescapable condition. Indeed, during 1990 Japanese participation in U.S. treasury auctions declined. This was due to rising interest rates in Japan even as America's were falling, a diminishing Japanese current account surplus, and falling land and stock prices which have "stripped Japanese companies of the means to raise capital needed for investment, thereby increasing domestic demand for capital and reducing the amount of money that otherwise might flow to the United States."³⁴³ It also reflects the weakness in the U.S. economy which has reduced the demand for domestic capital outside the public sector and has caused interest rates to decline. As a result of these recent factors, "Japan's long-term capital outflow [which had] peaked at \$136.5 billion in 1987,...fell to \$43.5 billion last year,"³⁴⁴ and, as noted above, Japanese investment in U.S. Treasury securities also reversed itself in 1990.

Japanese FDI in the U.S. has continued to grow, however concerns about its impact are probably exaggerated as well. Japan remains the second largest direct investor in the U.S. behind Britain though its investments are often far more visible to the public. Many of the complaints about cultural differences which have been leveled against the Japanese also followed American multinationals overseas

during their early years of international expansion and were eventually resolved. Accusations that Japanese companies are importing the *keiretsu* system into the U.S. are being investigated and where verified are likely to be subjected to American antitrust actions. Finally, FDI provides long-term capital investment, jobs and technology transfers to the U.S.

The concern that Japan has the ability to use its financial clout to influence U.S. policy also appears to be exaggerated. Indeed, America's continued emphasis on the strategic importance of U.S.-Japan relations may be a larger factor in any American reluctance to press Tokyo too hard on trade issues. It may also be a more relevant explanation for the Japanese tendency to stonewall in negotiations with the U.S. or accept and then selectively ignore the terms of bilateral trade agreements (though Japan's growing self-confidence is a factor too).

Thus, although persistent heavy dependence on short-term foreign capital, especially when one nation's capital predominates, is probably not healthy, there are growing indications that this is not a permanent position for the U.S. In fact, had Washington been willing to accept the costs of reducing its need for foreign capital, this situation could have been reversed earlier.

D. IMPLICATIONS FOR THE UNITED STATES

As this assessment has attempted to show, American approaches to the Japanese economic challenge have been inappropriate for two distinct reasons. First, the approach of successive administrations has been to subordinate economic interests to security imperatives in U.S.-Japan relations. Although efforts to open Japanese markets and to protect American industries have been pursued, they have often failed to have the desired effect. Indeed, although it is difficult to prove, it could be asserted that the failure to press negotiations and agreements through to satisfactory conclusions is the result of a consistent tendency to avoid taking actions on economic issues which might harm the larger strategic relationship. This subordination of economic interests may no longer be justifiable in a post-Cold War world in which economic power is of growing importance. Indeed, if the U.S. is to retain the military capability which is required to protect its interests in what could be a more fragmented international environment, it must take the actions necessary to restore the vibrant domestic economy upon which such military power must ultimately be based.

Although the critics of U.S. policy toward Japan have long advocated a greater emphasis on economic interests, their approach has been based on overstated assumptions or has advocated solutions which would not clearly serve

American interests over the long-term. It is difficult to refute the argument that Japan is different and presents a singular economic challenge to the United States. However, restrictive or protectionist policies are unlikely to be the solutions which will reverse America's relative economic decline vis-a-vis Japan. Instead, the U.S. must vigorously pursue its economic interests through a combination of pressures on Japan to open its system and domestic efforts to improve the competitiveness of American industries. The former approach would be significantly enhanced by the leverage which could be gained from a greater emphasis on economic interests and a corresponding attenuation of strategic imperatives in the U.S.-Japan relationship. While recent trends in the American-Japanese economic balance have been positive, the short-term influence of the U.S. recession cannot be discounted. Indeed, complacency should not divert attention from the opportunity to reinforce these trends through changes in American policy.

VI. CONCLUSION: KEEPING STRATEGY AND ECONOMICS IN BALANCE

A. OVERALL ASSESSMENT

This thesis has sought to examine the ambiguities posed by conflicting American views of Japan's role in U.S. national security strategy--strategic ally and economic adversary--and the relative weight which U.S. policy should devote to each. Based on the analysis of post-Cold War American interests presented here, one can conclude that Japan is neither as strategically important an ally today as it was during the Cold War nor is it the economic threat that some imagined during the height of U.S.-Japanese economic imbalances in the late 1980s. Unfortunately, the polarization of American views of Japan persist, threatening to cleave the mutually beneficial, if still asymmetrical, U.S.-Japan relationship. Avoiding such an undesirable breakdown in relations must begin with a more realistic articulation of U.S. interests vis-a-vis Japan.

The emerging post-Cold War environment in East Asia offers an unprecedented opportunity to reassess American strategic interests in the region. While the U.S. retains significant security interests and a military role in the area, Japan's once overriding strategic importance to those interests and that role has diminished for reasons discussed in detail in Chapter IV. Furthermore, during the past

decade and particularly as the Soviet threat has faded, American economic interests have come to dominate the national debate over American strategy in Asia. No bilateral relationship and its role in American national security strategy has received more scrutiny than that between the United States and Japan. Indeed, in no other relationship has the perceived conflict between American strategic and economic interests been so acute. Fortunately, the end of the Cold War appears to offer the opportunity to close this strategic perception gap--not because the choice between one view or the other is now possible, but because converging American strategic and economic interests may make such a choice unnecessary if U.S. policy is modified accordingly.

Since the late 1960s when contradictory views of Japan became a subject of debate, and through the subsequent period of intensifying polarity between these views, the U.S. government has consistently subordinated divisive economic issues to strategic imperatives in the U.S.-Japan relationship. Indeed, this prioritization of interests characterized American policy throughout the Cold War. During that period of persistent Soviet threat to U.S. national security, this approach to American-Japanese relations was justifiable despite its apparent economic costs. The end of the Cold War undermines the rationale for this subordination of economic interests to military

security considerations in the U.S.-Japan relationship. Thus far, however, American strategic emphasis continues to favor military rather than economic interests. The continued reliance on Cold War assumptions and rhetoric as a means of overcoming divisive economic issues only serves to perpetuate the polarization of U.S. views of Japan. Furthermore, since the underlying strategic rationales which have legitimized the subordination of economics to military security are less obvious and defensible, the credibility of this approach may be difficult, if not impossible, to maintain. Indeed, perpetuating the polarization of views even as the credibility of the centripetal view wanes may place the relationship on a more fragile footing than at any time in the postwar period. This is particularly unfortunate since the current approaches for responding to Japan's economic challenge--administration emphasis on strategy over economics and Congress's orientation towards retaliation or protectionism--appear to be losing some of their efficacy as well. Thus, the opportunity to reconcile the conflicting American views of Japan may never be better than it is today.

In the emerging post-Cold War security environment, the central element of any effort to reconcile American views and to restabilize U.S.-Japan relations must be a more balanced consideration of U.S. interests vis-a-vis Japan.

Specifically, this means that economic interests must be given at least equal consideration with strategic matters--a shift in emphasis which the end of the Cold War allows, even demands. Such a change in relative priorities will give the U.S. greater flexibility in its relations with Japan and will alleviate the need to maintain the fiction that the Japanese, as allies, share the same strategic world view as the United States. The relationship can then be redefined on the basis of real rather than projected mutual interests. It will also force both sides to face up to and come to terms with diverging interests before those differences form the roots of unresolvable conflicts. In sum, Washington can no longer persist in subordinating non-military interests in the U.S.-Japan relationship any more than Tokyo can continue ignoring those non-economic interests which the United States has too frequently relieved it of responsibility for.

Based on this general assessment of the U.S.-Japan relationship in the emerging post-Cold War era, the following specific policy recommendations are provided. The objective of these recommendations is to serve U.S. national interests more effectively while seeking to establish a more stable and enduring basis for American-Japanese relations. It should be noted that none of these recommendations provide neat, easy solutions, indeed some might cause near-term perturbations in bilateral relations because they require aggressively confronting divisive issues or

abandoning long-held strategic assumptions. However, over the long-term they could produce a more balanced and durable relationship.

B. POLICY RECOMMENDATIONS

1. Stress Mutual Interests in the Post-Cold War Order

The U.S. must develop a new set of national priorities for the post-Cold War world. As has been suggested, this should include, at a minimum, the elevation of economic interests to a level at least equal to military security considerations. In the new international security environment which is emerging the U.S. could look to Japan's loosely articulated though never fully implemented "comprehensive security strategy" as a model for its own national strategy. Japan, one group of its prominent critics note, "has been admirably clearheaded about its economic interests."³⁴⁵ The U.S. must follow suit.

While such an effort will require changes in American foreign policy, it will also necessitate urgent domestic reform and resource reallocation. Although specific recommendations for such actions are beyond the scope of this study, it should be noted that they must include, not only the reallocation of military resources suggested earlier, but also the restructuring of America's grossly inefficient and largely unproductive social welfare system as well as educational reforms and solutions to

pressing public health crises. Indeed, if U.S. efforts to foster change in Japan are to succeed, they must be accompanied by credible reform measures at home.

After redefining and articulating its national interests and goals in the post-Cold War world, the U.S. can reassess its shared interests with Japan. These will certainly include Third World development and stability, non-proliferation of weapons of mass destruction, conventional arms control, freedom of transit in international waterways, technological cooperation aimed at eliminating environmental threats and sources of conflict caused by dwindling natural resources, mutual efforts to increase the security of the world's food supply, and leadership in international initiatives to accomplish these and other goals.

The Japanese must conduct the same form of reassessment as the U.S., though this will likely be a slower process. However, the most enduring and productive U.S.-Japan partnership will be one which produces freely entered cooperative efforts based on the overlapping interests of separately conceived national strategies. It will not result from a partnership based on Japan being prodded to follow and finance America's strategic vision, and then doing so when that is easy or when the threat to the bilateral relationship exceeds the benefits of taking its own course. This type of partnership, based on the fiction of a shared vision, can only produce tension, disappointment

and accusations of bad faith on both sides. Indeed, the mounting frustration which characterizes U.S.-Japan relations today largely reflects the continued reliance on a projection of mutual security interests which were based on now less relevant strategic assumptions.

2. Seek a Multilateral Commitment to Regional Stability

Despite regional diversity which works against a formal multinational alliance structure in the Asia-Pacific region or even an informal framework equivalent to the Conference on Security and Cooperation in Europe (CSCE), the U.S. should seek a non-binding, non-specific multilateral commitment to regional stability and conflict resolution through peaceful means. This commitment would not need to include all regional parties though its legitimacy would be enhanced by maximum participation including that of the PRC and the USSR. Such an agreement might represent little more in practice than a general statement of principles based on the provisions of the United Nations charter. However, it would provide the U.S. with a loosely defined, flexible rationale to support its continued "regional balancer" presence in Asia--i.e., that its presence enhances the goals of stability and conflict deterrence expressed in the agreement.

Using this general commitment to stability as the operative basis for America's Asian presence, the U.S.-Japan relationship could be viewed as an element of that larger

strategic concept rather than the "critical linchpin" of American strategy. This shift in American emphasis would lend greater credibility to the "honest broker" element of the new strategy by disassociating the U.S. from inimical Japanese goals. It would also allow Washington greater flexibility in dealing with divisive bilateral issues in its relationship with Japan as well as in its pursuit of U.S. regional interests.

3. Maintain the American Nuclear Umbrella

Japan's inclusion under the American nuclear umbrella should be maintained to discourage nuclear proliferation there and elsewhere in the region. However, the U.S. should play down its role in the conventional defense of Japan by emphasizing Tokyo's sovereign defense responsibilities as well as the lack of meaningful threats to Japan. The latter emphasis would be used to restrain any tendency of the former to promote continued rearmament beyond that which will be described in recommendation six below.

4. Maintain the Security Treaty

While retaining the U.S.-Japan Security Treaty as a means of reassuring both Japan's neighbors and the Japanese themselves, the U.S. should downplay Tokyo's importance in America's Asian strategy. Despite new strategic conditions which render the U.S.-Japan Mutual Security Treaty less relevant, any move to abrogate or renegotiate it would

introduce unnecessary uncertainty during a period of potentially destabilizing international transition. The asymmetric character of the treaty is now far less significant an issue than is its symbolic value as a commitment to preserving the larger relationship and regional stability. And, although the presence of U.S. bases in Japan is not formally dependent on the treaty, the legitimacy of their presence is certainly associated with it. This does not mean that the security treaty should remain the centerpiece of the U.S.-Japan relationship or of America's Asian strategy, however.

Indeed, the U.S. must recognize and accept that some of Japan's underlying interests in maintaining the security alliance--for instance, as a means to legitimize its economic and political expansion in Asia--differ from those of the U.S., which are to preserve regional stability and American influence through continued military presence. The United States can avoid association with inimical Japanese motives by ceasing to overemphasize Japan's strategic military importance to the U.S. as "the critical linchpin of our Asian security strategy."³⁴⁶ Instead, the U.S.-Japan military relationship should be viewed as one element, not the central element, of America's Asian security interests. As suggested earlier, this de-emphasis of Tokyo's strategic importance could provide the U.S. with greater leverage and

flexibility in pursuing its economic interests and in resolving divisive issues related to those interests.

5. Retain Bases in Japan as Long as Mutually Desired

In view of the operational convenience and cost-effectiveness of Japanese bases, the U.S. should maintain a forward deployed military presence in Japan in support of its regional balancer role as long as it serves American interests and is welcomed by Tokyo. However, considering the possible loss of permanent bases in the Philippines and key facilities in South Korea, Washington should minimize any resulting overdependence on Tokyo by maintaining or seeking base access rights, with or without a permanent presence, elsewhere in the region. The recently negotiated arrangement with Singapore might be an appropriate model for such efforts. In any case, the U.S. should also limit Japanese host-nation contributions to non-operational support costs in order to minimize any real or perceived Japanese ability to influence U.S. military operations and policies in the region.

In attempting to maintain existing or to obtain new base access rights in the region, the U.S. should avoid permanent presences in nations, such as the Philippines, where nationalistic forces overshadow the mutual interests which are essential to a stable, enduring security relationship. For this very reason, the U.S. must resolve

rather than continue downplaying divisive issues in its relationship with Japan.

6. Disavow a Watchdog Role and Minimize Burden Sharing

While the U.S. should not lend legitimacy to its emerging role of tacit lid on Japan's military power, American interests are served by discouraging further Japanese rearmament, quantitative or qualitative. Due to a variety of constraints, Tokyo's potential for meaningful burden sharing appears to be marginal and further JSDF rearmament or mission expansion not only risks an Asian arms race directed against Japan but also encourages Japanese nationalists to advocate a more independent and aggressive security position as American military presence in Asia diminishes. For the U.S. to attempt to temper these tendencies by acting overtly as Japan's "watchdog" would ultimately be destructive of the confidence and mutual interest upon which the relationship must be based if it is to endure.

However, in an "economy of force theater" the U.S. can ill afford to stimulate arms proliferation even among allies, especially if it is directed at each other. Furthermore, the strategic and economic benefits to the U.S. of continued Japanese rearmament are marginal, if not detrimental due to the technology transfer to Japan resulting from coproduction arrangements. Thus, the United States should attempt to preserve Japanese quantitative and

qualitative inferiority in defense forces as a hedge against arms proliferation or, in the worst case, an acrimonious breakdown in U.S.-Japan relations. Maintaining current Japanese force levels and capabilities should be encouraged, along with only a modest rate and quality of replacement and technological modernization. This U.S. policy approach should be maintained until there develops a regional consensus as to the proper extended security role to be played by Tokyo.

7. Modify the Bilateral Strategic Partnership Approach

The United States should modify the bilateral strategic partnership approach to U.S.-Japan relations. Specifically, Japan should be drawn into larger leadership roles in international bodies and encouraged to channel its financial assistance through international organizations which will distribute aid without regard to Japanese economic interests. Indeed, for Tokyo to play a meaningful leadership role in international affairs, it must do more than just participate in response to American pressure, it must develop and pursue its own vision of a world role.

Pressing Japan to exercise such a role mostly in the context of a bilateral partnership with the U.S. has led the Japanese leadership to view its international responsibilities as largely a matter of maintaining good bilateral relations with Washington. U.S. emphasis on the "division of labor" concept has conditioned Japan to view the world in

terms of narrow national economic interests rather than any broader strategic goals which engender trade-offs and compromises to serve larger needs. Some contend that Japanese cultural values militate against the development of such an outer-directed strategic view; if this is so, continued reinforcement of a largely inner-directed view does not serve either American or Japanese interests over the long-term. Indeed, if Japan fails to establish an acceptable global role it may find itself the target of containment and isolation by those who fear its single-minded pursuit of national goals.

8. Reduce U.S. Financial and High Tech Dependence

The U.S. must reduce its dependence on Japanese capital through budget balancing and other macroeconomic policy efforts. In view of current positive trends, restrictive actions aimed at Japan are unnecessary and would likely be self-defeating economically.

American dependence on Japanese high technology can be ameliorated by establishing a national high-tech components stockpile as a hedge against supply interruptions. However, as a longer term solution, Washington should encourage through incentives or require by regulation that Japanese high-tech manufacturers build critical weapons components in the U.S. using American suppliers whenever possible. The U.S. government should also shift R&D subsidies to American companies outside the defense sector

which develop and manufacture dual-use high technology components.

9. Resolve Trade Issues

Washington must aggressively seek favorable resolutions to divisive U.S.-Japan trade issues and economic imbalances created by unreciprocated advantages. The tools of such an effort should include:

a. Create a Department of International Trade

The creation of a cabinet level Department of International Trade would demonstrate the elevation in priority of international economic security considerations in American foreign policy.³⁴⁷ The responsibilities of this new organization would include: international trade policy-making and negotiation; investigation of and response to discrimination against U.S. companies abroad as well as violation of American laws and GATT regulations by foreign companies exporting to or operating in the U.S.; coordination with the Pentagon and other departments on decisions related to export controls and protection of American industries vital to national security; cost-benefit analyses of protectionist measures and other import controls; and, designation of high technology and other critical business sectors where government resources can be applied to establish or maintain U.S. competitiveness (but government involvement should emphasize incentives and indirect subsidies such as education, R&D and infrastructure

improvements, not protectionism, direct subsidies or noncompetitive business cooperation³⁴⁸).

Most importantly, the Department would draft a national trade and competitiveness strategy, equal in importance to the national military strategy, which would provide a strategic framework for guiding American trade policy. All existing and proposed protectionist measures would be evaluated in terms of their contribution to this strategy. Although the Department would be committed to free trade principles, it would place national economic considerations first--balancing the interests of consumers, producers, workers and the national security in the broadest sense. However, competitiveness improvements would be stressed over protection except when national interests or economic benefits clearly dictated otherwise.

b. Negotiating Strategy toward Japan

As an element of a comprehensive trade strategy, U.S. policy toward Japan would stress reciprocity and balance. Unfettered by the need to place military-strategic imperatives first and guided by the trade strategy described above, the policy would place American economic, competitiveness and technology interests on par with other considerations. It would avoid policies which harmed American consumers or protected U.S. companies from healthy competition. However, it would aggressively seek reciprocity and fairness for American producers and exporters.

Although overbearing efforts to change the Japanese would not be stressed, the U.S. could actively seek allies in Japan among those groups who advocate domestic changes which favor American interests. Indeed, Japanese polls have shown "that a majority of Japanese understand that their interests are championed by an American government pleading for structural reforms benefitting the consumer."³⁴⁹

Where the Japanese resist change due to powerful political constituencies or cultural preferences, the U.S. should demand equal opportunities for American companies to participate in the Japanese system on its terms. U.S. firms will be more willing to adapt to foreign business practices if they believe they will be given a reasonable chance to succeed. In addition, market opening commitments and other agreements with the Japanese government should include clear measures of reciprocity and automatic, mandatory sanctions for compliance failures. This would place responsibility for American imposed sanctions on the Japanese themselves not the U.S.

Import protection measures which heavily penalize American consumers should be avoided. Instead, as Japanese manufacturing operations grow in the U.S. they should be targeted for retaliatory actions such as domestic content and local management regulations, mandatory joint ventures with U.S. companies which stipulate minimum

technology sharing and management control requirements, and even FDI or market share reciprocity guarantees for U.S. companies attempting to enter the Japanese market. Indeed, the threat of such measures might lead Japanese firms with large investments in the U.S. to bring pressure on their own government for change.³⁵⁰

Above all, the American government should stop encouraging and then tolerating Japanese recalcitrance, procrastination and evasion by sending mixed signals as to Tokyo's strategic importance to the U.S. If productive, mutually supportive U.S.-Japan relations are to be preserved in the post-Cold War international environment, the most important aspect of the relationship must be the economic element--where the core interests increasingly lie. However, the advancement, if not the very preservation, of this element is seriously jeopardized by the continued American adherence to Cold War era strategic assumptions and priorities. The U.S. will continue to experience difficulty in resolving divisive trade issues as long as the perception persists that strategic imperatives will ultimately constrain American pursuit of economic interests.

C. RISKS/UNCERTAINTIES

The conclusions of this thesis and the policy recommendations derived from them assume certain continuities in current domestic and international trends. Should any of

the following significant discontinuities occur, the resulting uncertainties would introduce new risks which could invalidate some or all of the conclusions and recommendations presented above:

1. Threatening Soviet Instability or Renewed Hostility

Instability in the Soviet Union resulting in civil war or the seizure of power by extremists of the left or right with hostile views of the West might justify the continued subordination of economic interests to security imperatives. Although a return to Cold War military tensions need not develop, uncertainty or open political hostility could be enough to force a re-emphasis on military-strategic concerns by the U.S. and its allies.

2. Rapid Growth of Chauvinistic Japanese Nationalism

A rapid growth in Japanese chauvinism possibly resulting in the election of an openly nationalistic government could lead to confrontation between Japan and the U.S. over economic issues as well as the removal of American forces from Japan. Such a government would likely plot a more independent and assertive course for Japan, might accelerate rearmament, would aggressively pursue narrow national interests, and might be willing to use technology and financial leverage to achieve its aims. It would not be an easy government for the U.S. to deal with under any circumstances.

3. Shift to Openly Protectionist Policies by the U.S.

Election of a pro-protectionism candidate to the U.S. presidency or a large majority to the U.S. Congress could seriously impact U.S.-Japan relations. While this scenario might support rather than undercut certain conclusions and recommendations presented in this thesis, it risks driving the Japanese toward scenario two above. The worst case outcome of a combination of scenarios two and three would be a trade war detrimental to both countries' interests.

4. Sharp Worsening of Current Economic Trends

The sharp worsening of negative trends or other divisive aspects of the U.S.-Japan economic balance would add further fuel to fears of the Japanese threat and calls for retaliation. If the U.S. government persisted in its emphasis on Japan's strategic value, to the detriment of American economic interests, the intensifying conflict in U.S. views of Japan, described earlier, could result in acrimonious debate on both sides of the Pacific and ultimately a breakdown in relations. This in turn could set the stage for either scenario two or three or both.

5. Summary

While each of these scenarios is possible, all but the first might be avoided by pursuing the recommendations proposed in this thesis. Indeed, a mutually beneficial U.S.-Japan relationship can be built on the realization

that the strategic assumptions underlying the relationship have changed and that divisive economic issues can now be addressed directly. Japan is no longer as strategically important to the U.S. as it was during the Cold War--it is the economic relationship which most closely binds the two nation's interests today. Thus, continuing to emphasize strategic imperatives while economic tensions fester threatens to undercut the element of the relationship that presents the greatest potential for cooperation in the post-Cold War world.

Clearly, U.S.-Japan economic relations will, indeed should, remain highly competitive and even at times contentious. Healthy, dynamic competition benefits both nations. However, this competition must be reciprocal and mutually beneficial, not unbalanced and divisive. Similarly, while the strategic importance of the U.S.-Japan relationship is diminishing in the post-Cold War period, the two nations retain significant common interests which provide grounds for continued strategic cooperation. Both have a strong stake in maintaining regional and global stability, for instance, even if they often have different concepts of the best means to promote it. However, based on a more balanced consideration of economic and strategic interests demanded by the unfolding post-Cold War international environment, the United States must increase the priority given to economic imperatives while reducing emphasis on the

strategic elements of American-Japanese relations. Indeed, placing economic interests above strategic considerations may be the key to constructing a more stable, equitable and enduring U.S.-Japan relationship.

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